THE DEFEAT OF POVERTY

By the Same Author

THE QUICKSANDS OF THE CITY

EVERYBODY'S BUSINESS

Etc.

THE
DEFEAT OF POVERTY

by

HARTLEY WITHERS

What the world needs and what Great Britain needs is a higher consuming power

MR. GEORGE LANSBURY
(*in the House of Commons, 23 March 1938*)

JONATHAN CAPE
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THE DEFEAT OF POVERTY

CHAPTER I

INDUSTRY AND ITS MARKET

The Two Armies – Consumers Eager to Consume More, if they Could – Producers Ready to Produce More, if Sure of Finding Market for Increased Output – Market would be Secured if Needs of Consumers could be Turned into Effective Demands – Dangers of the 'More Money' Solution – Expansion in Production Essential – Only Possible if Confidence of Producers Maintained – And Necessary Incentive Provided – Consumers always ready to do More – Producers need Incitement – Obstacles to Business Progress – Absence of Effective Demand and Fear of War – Other Terrors – Trade 'Cycle' and Stock-Market 'Barometer' – Can we Ensure Industry's Market? – President Roosevelt on Higher Wages – Inevitability of Gradualness – Competitive Costs of Production – Social Services as Solution – Cannot go far without General Increase of Wealth – Recent Periods of Advance.

We are all consumers all through our lives, and very nearly all of us would like to consume more freely if we could afford to do so.

We are also, at least those of us who are grown up, very nearly all producers, directly or indirectly – either through our own work, or through that of those on whom we have a claim as dependents, or through the work which we further by providing capital which we have saved or inherited. As producers we are most of us ready to do more, if it is made worth our while.

Here then we all stand each one a member of the two armies of consumers and producers, wanting to do more on a certain condition. As consumers, if

more goods and services were within our reach; and as producers, if we knew that our greater effort would not be too troublesome and would be adequately rewarded.

As things are, neither of these conditions is fulfilled. The needs of consumers cannot be met because their demands are not what economists call 'effective' – they cannot afford to buy nearly all that they would like to consume. Producers' effort is cramped because they fear that they will not find a profitable market for an increased output, owing to this inability of consumers to consume more.

To increase the activity and prosperity of all kinds of business, it is thus essential to get more purchasing power into the hands of consumers – in other words to turn the needs of the unsatisfied multitude into effective demands. And to do so in such a way that a profitable market may be secured for producers, especially for the industrial and commercial producers, on whose effort all the rest of us live.

At first sight, there is an obvious solution – put much more money into the hands of the unsatisfied consumers and so make their demand effective. Their effective demand would provide the producers with the market that they need and the producers' increased turnover would secure for them the reward that they want as wage-earners, interest- and dividend-earners, organizing profit-earners and professional salary- and fee-earners.

This solution would have much to recommend it if it could be carried out with the necessary skill and caution. But if money is multiplied faster than goods,

the result is likely to be a runaway rise in prices that makes the unsatisfied worse off than ever, and leads finally to ruin and destitution for all, except those few who are cunning enough to fish in such troubled waters. In fact the experience of Germany and other countries, in the after-war period of printing-press debauch, has caused such a general fear of monetary inflation, that the mere suggestion of it now leads to shuddering apprehension.

Apprehensions, real and imaginary, are the worst obstructions to the increase in producers' output out of which alone consumers' demands can be met. Business can only prosper and expand if confidence in the prospect of future profit is present in the minds of those who organize it; and unless production is expanding under this influence, consumption cannot grow. For producers' output is the only source of consumers' intake. It is therefore necessary not only to provide more purchasing power for consumers but also to keep the organizers of business in a frame of mind that will increase their activities.

For there is an important difference in the state of mind of these two armies, with regard to their readiness to fulfil their functions.

As consumers our activity, though varying greatly in intensity from hour to hour, is unceasing as long as we are alive. Even when we sleep we are wearing out some kind of covering or mattress and continuing the process of digestion that will in due time call for a fresh supply of nourishment; and in our waking hours we are ready at any moment to consume in one form or another, even if it be only in lending half an ear to

a radio-set, some kind of enjoyment that we may be able to afford.

As producers, we are quite otherwise. We nearly all of us have to be shown some incentive before we will submit to the daily (in most cases) nuisance of doing some regular job. This is not to say that we are all slackers who would prefer to drift through life in idleness. On the contrary, the normal human being prefers to amuse himself by some form of exertion. But work, in the sense of a task that has to be done, whether we want to do it or not, is very often not the sort of exertion that we should choose, unless persuaded to do so by some sort of inducement. It is fortunately true that almost all kinds of work bring with them a certain amount of interest, if only from the fact that they nearly always bring us into more or less pleasant relations with our fellow-workers, and after some years of training, become a habit from which we part with some reluctance. And the organizing jobs, carried out by those who decide on business policy, are of such absorbing interest that those who hold them go on working at them (though partly, perhaps, because they have not had time to learn how to use leisure) long after they have gained more than enough wealth to satisfy all material desires. But it remains true that while as consumers we are ready and eager to consume all the goods that are at present available and a good deal more, as producers we have to be spurred to do our work either by the promise of reward in the shape of good things to be enjoyed by ourselves and our families and our friends, or by the satisfaction that comes from doing a big job well (at least in our own

opinion) or by the popular applause and 'place in history', the promise of which encourages the politicians to effort.

Some day, perhaps, a purely altruistic incentive – a noble desire to increase the wealth of the community – may be as effective as any other kind of reward in promoting production. But this generous impulse, common as it is, has not yet anywhere proved itself sufficiently strong and general to allow us to rely on it alone to provide our needs. It is true that an immense amount of valuable effort for public purposes, or to serve some cause that they think worthy of support, is made by people of wealth and leisure and also by many who have neither wealth nor leisure to spare, and that many politicians do work that they detest in order to try to serve their country; also that in nearly all families the incalculably valuable work of the domestic organizer is done for no direct material reward. But the wives and sisters, unpaid and too often unthanked, who see that our houses are clean and that our food is generally wholesome and sometimes well cooked, do not consciously perform this beneficent function for the good of the community, but for that of their families and themselves, and they usually get their fair share of the family purchasing power. In spite of all the exceptions that have been named, the incentive to work required to keep producers busy is almost always a material reward paid in the form of a claim on the total of goods produced, the extent of this claim being usually expressed by a sum of money.

This reward that the producing army gets is the

mainspring of enterprise in countries in which enterprise is free. Organizers and administrators and shareholders want to be sure, or at least to expect with confidence, that more production will not mean less success achieved and lower dividends paid. Creditors want to be satisfied that whatever they lend to industry for increasing production will be rewarded with what they regard as reasonable interest. Wage- and salary-earners, who do the comparatively dull and uninteresting part of productive effort and consider with a good deal of reason that they already work more than hard enough, will quite rightly think twice about working longer hours or with closer application, even if they are convinced that by so doing they would secure more command of goods and services. For they would very naturally argue that more command of goods and services is a bootless advantage, if it can only be got by sacrifice of leisure in which to enjoy them, or by nervous exhaustion that leaves the workers unable to appreciate them. The kind of Consumers' Paradise for which we are looking is one in which we shall all have more good things, more time to make use of them and more zest in enjoying them.

But all these ambitions ought, at first sight, to be well within our reach, thanks to the progress of science and invention which have multiplied productive power and created for us the Mechanical Slave, who, within limits, works all the better the harder he is worked, and generally goes on the scrap-heap long before he is worn out, being superseded by a speedier and more satisfactory successor. Bigger output ought to mean

more success and larger profits for organizers and shareholders and higher wages for the rank and file, without any increase of bodily or nervous effort, if it can be won by means of better organization and more machinery, allowed to give its full yield. The producing army is equipped as it never has been before to supply that larger flow of goods and services which it wants in its capacity as consumer; and yet it has never done its utmost best and often it stands in a state of partial idleness, because it is afraid that it will not be able to find a market. Why should this be so?

Apart from the deficient buying power of the unsatisfied millions, the fear of war has lately been the most effective bar to prosperity. From the point of view of productive activity, the effect of this fear is literally devastating. It was not so, at all to the same extent, in the days when war was a comparatively decent affair conducted on gentlemanly principles, at least with regard to trade and business. Even the unscrupulous Frederick the Great, when smarting under reverses that had exposed his capital to seizure, allowed himself to be convinced that 'merchants' bills are a sacred thing' and permitted their payment to enemies who had just been laying Berlin for three days under the harrow of war; and, to come down to later times, the Russian Government punctually paid to British holders of its debts the interest due to them during the Crimean War.

In the last great war a rigorous censorship was established through the fine sieve of which all letters and telegrams had to pass; no dealings were permitted not only with enemy citizens, but with any neutrals

who might be suspected of being in business relations with enemy citizens; and, of course, no payments were allowed which could be supposed to be going to get through to an enemy through any roundabout channel. I can remember the disgust of old-fashioned City merchants who still believed that their bills were a 'sacred thing' and discovered that they were not permitted to meet their obligations. But everyone must recognize that, under modern conditions of warfare, the action of our Government, and the similar measures taken by all the other warring governments, were not only justified but inevitable.

With the certainty before them that the censorship and the Black List, fortified by subsequently gained experience, are waiting in their pigeon-holes to be applied in their fullest rigour if the occasion should again arise, manufacturers and merchants are naturally shy, at times when threats of possible war are filling the Press, of entering into contracts covering any stretch of time with anyone abroad, not only in any country with which we might possibly go to war, but even in probably neutral territories.

International trade is thus checked to a quite incalculable extent by fear of war. And not international trade only. This terror also has a deadening effect on all kinds of activities at home. In the spring of 1938, when Austria and Czechoslovakia were in the headlines and the Government was urging us all to get fitted for our gas-masks, one used to hear of people who had decided that this was not an appropriate time for adding a wing to their houses, or even for getting their houses painted and furbished up, when

houses, inhabitants and contents were in danger of being presently shattered by a bomb. To the extent that they acted on this feeling, they checked employment and helped the slackening of industry; and every action of this kind tends to spread its effect in an ever-widening circle, the vicious circle of depression.

This fear of war is so deadly in its effect that if by some miracle it could be eliminated, it is hardly too much to say that all the obstacles that stand in the way of a great forward movement towards general prosperity would disappear, or at least be much easier to surmount.

There is no need, however, to dwell on the blessings of peace. Until we get real peace, the Consumers' Paradise for which we are looking will be only a Promised Land, promised by science and denied by man's bad temper. In the meantime, we have to do our best, under present conditions of bloodless warfare, to bring more goods and services within the reach of us all, by multiplying their production.

To this end, it is above all important to maintain and increase the confidence and courage of the manufacturers and merchants, using these words in their widest sense to include all who organize the production and distribution of necessaries and comforts. Unless they turn out the goods and put them where we can buy them, all we camp-followers of the productive army who furnish the services that enrich and embellish life will be faced with starvation. They are the key-men and generals of the army, on whose word of command it moves forward or retreats or marks time.

We cannot relieve them, in the present temper of some of our neighbours, of the fear of war; but something may be done to show them that certain bogies by which they have lately been terrified are products of disordered imaginations – such as the regularity of the unfortunately misnamed trade 'cycle' and the trustworthiness of stock-market movements as a barometer of trade. But above all we have to convince them that, whatever happens, industry will not be allowed to stand idle for lack of a market for its output.

If we can show them that the consuming army is going not only to want but also to be able to consume more, the merchants will very quickly give more orders to the manufacturers, who will readily lay in larger stocks of materials, and set more men to work on turning them into goods; these orders will quicken the efforts of the primary producers, as they are called, the organizers of the farming and mining industries, and will at the same time put more purchasing power into their hands and enable them to buy more machinery and personal comforts; and so all the various industries that supply goods for consumption and machinery and equipment for expanding production will be stimulated. In other words, there will be more effective demand both for consumption goods – the things that we buy in the shops – and for capital goods, the plant and machinery that industry buys when it hopes to be busy.

How, then, are we going to show the business organizers the promise of a better market, through an increase in general consuming power? As a beginning, we want to enable the poorest classes to get what

they want, in order to lead healthy and comfortable and truly civilized lives.

Anything that can be done in this direction will evidently be good for general business. President Roosevelt put this aspect of the matter very happily in a speech that he made in the autumn of 1937: 'A few more dollars a week in wages, a better distribution of jobs with a shorter working day will almost overnight make millions of our lowest-paid workers actual buyers of billions of dollars of industrial and farm products.'

But any attempt to achieve this reform with a jump, in Mr. Roosevelt's impulsive manner, might have disastrous results. The 'few more dollars a week in wages' of which he talks so pleasantly might have an ominous sound for the business organizers. They would know that the extra wages would come out of their or their companies' pockets and they might feel sceptical about their subsequent return in the form of increased business. In these matters what Lord Passfield, better known as Mr. Sidney Webb, has called the 'inevitability of gradualness' is an inexorable law.

In this country, dependent as we are on oversea trade for full prosperity, we have to be specially cautious about cost of production. Competing at home and abroad with foreign goods and services, often artificially fostered and subsidized, we have not a free hand with regard to wages. So far, we have to some extent solved the problem of increasing the wage-earners' purchasing power by means of the social services. These contributions, combined with our relatively high wage level, have given our population

a standard which, though still far from adequate, compares well with that of most other nations. Until the general standard throughout the world can be raised, it may be that further progress along this roundabout line is the most feasible solution.

But progress along this line will not carry us very far or fast, unless it is accompanied by such an increase in general prosperity that the taxation involved by it will be more easily borne. At present the rate of taxation is a definite restraint on enterprise, damping it almost as much as the fear of war. How can industry show its old adventurous spirit when loss is threatened by all kinds of real and imaginary scares, and at the same time gain is subject to a toll that is regarded by enterprise as extortionate? What we want is an all-round increase in wealth of which a larger relative share can be secured for those who need it most. Redistribution of the national income in the interests of the poorest can be most happily achieved if the national income is so much increased, that those at whose expense the redistribution is made are at least no worse off than they are at present. Otherwise – if we have to dock them of larger slices of income – their reduced purchasing power will cause unemployment and distress.

It will help us in our search for the needed general increase if we examine the periods in which the most rapid progress in this direction has hitherto been made. These periods were, first, the century between the Battle of Waterloo and the outbreak of the last great war; second, at least in this country and in those of the neutral nations, the early years of the war itself, before the scarcity of food and materials began to

make itself felt, owing to the submarine campaign; third, the time between 1922 and 1928, when international trade made a gallant attempt at revival, working as nearly as possible on the lines which had served it well in the pre-war century; and, fourth, the period between 1932 and 1937, when, after a spell of devastating crisis and depression, internal business in Britain and many other countries showed a hopeful rally, though international trade lagged and improved more slowly.

If, from the experience of these periods, under the widely different conditions which distinguished them, we can see which of these conditions helped, and which hindered, the progress of material prosperity, it may be possible to discover a way through the mists that obscure its future.

CHAPTER II

PRE-WAR PROGRESS

Rapid Rise in Standard in Century before the War – Stamp's Calculation – Constancy in Distribution of Wealth – Statisticians' Fatalistic Tendency – Wealth nevertheless Insufficient – Progress of Invention – Continuous through the Period – Time of Huge Experiment – Crime and Horrors – Comparative Peace – Freer Trade – Unrestricted Capitalism – The 'Invisible Hand' – The Goods Delivered – Britain the Workshop – Enriches All the World – Oversea Investment – Growing Strength of Organized Labour – Growth in Size of Industrial Unit – Mass Production, Mass Consumption – The Monetary and Financial Handmaid – The Gold Standard – Fluctuations in Prices – Their Disturbing Effect – Promote Speculation – Resulting in Crises – Especially in the United States – Growing Strength of British Banking – Improvement in Investment Machinery.

DURING the century before the war the greatest increase was secured in material prosperity that has ever been recorded in the history of mankind. Population grew by leaps and bounds – in Great Britain, in spite of a rapid stream of emigration, it was multiplied by nearly four; and at the same time the command of necessaries and comforts exercised by all the members of this expanding human hive is estimated to have also been multiplied by four.

This calculation has the authority behind it of Sir Josiah (now Lord) Stamp, eminent as statistician, economist, railway chairman and moralist. In his book on *Wealth and Taxable Capacity*, he quotes on p. 94 a statement that he had often made before 'that

the ordinary person of to-day is four times as well off in real commodities as the person in the corresponding scale in the beginning of the nineteenth century. The bulk of this advance was secured in the first part of the century'.

This increase in consuming power had been, according to the available evidence, 'evenly shared by all classes of the population'. As another work by the same distinguished author puts it, 'although there has been a great increase in *per capita* wealth, and the rich people are much richer and there are more of them, the level of the masses has been raised in like proportion and their numbers in like proportion' (*The Christian Ethic as an Economic Factor*, p. 48).

Such constancy in the distribution of the nation's wealth at least refutes the dismal vaticinations of those who used to tell us that the rich were getting richer and the poor poorer, and that there was an 'iron law' which prevented wages from ever rising above a level sufficient to provide the workers with a bare subsistence. But to those of us who hope for a reduction of the present inequities and inequalities of the process by which the nation's wealth is shared, it is disconcerting to find that the statistical authorities appear to infer, from the fact that it has hitherto been worked on certain lines, that it must continue to be arranged in the same way. Sir Josiah expresses agreement with Dr. Bowley, another statistician of world-wide fame, when the latter says that 'the constancy of so many of the proportions and rates of movement found in the investigation seems to point to a fixed system of causation, and has an appearance of inevitableness'.

Moreover, it appears that this constancy in the rates of distribution is found in 'all the civilized countries that we know', so much so that Sir Josiah is left wondering whether 'it is in the nature of the universe that it should be so' (*Wealth and Taxable Capacity*, p. 88).

This fatalistic tendency among statisticians to be led by the study of their charts and graphs into a belief that the world is dominated by the figures of the past, and has no power to alter a tendency that has once been mathematically established, is a matter which, as we shall find later on, sometimes has serious consequences. Fortunately we shall be able to show, when we come to deal with the after-war period, that Dr. Bowley himself testifies to a great redistribution of the national income as already achieved. For the present, however, we are only concerned with the fact that the pre-war century made a great forward stride in consumption and therefore also in production. For there is every reason to suppose that the progress shown in Britain was shared by the many countries to which she was pouring out a fertilizing stream of emigrants, goods and capital; and was even more rapid in the United States, where an area of immense natural resources was being developed by an exuberantly enterprising population, with a clean slate, soiled by none of the feudal conventions and restrictions smeared over that of the Old World, on which to write its programme and score its successes.

In a comparative sense then, the Consumers' Paradise may be said to have been entered before the war. To quote Sir Josiah once more, 'students of contemporary literature will have no difficulty in realizing

that what we regard as a low standard of life would then' (120 years ago) 'have been regarded as affluence'. But we were not satisfied before the war, and quite rightly. For we were not producing enough to give us a proper standard of comfort and civilization. According to Sir Leo Chiozza Money, whose work on *Riches and Poverty* did so much to call attention to the inequalities of wealth, 'the national income is not large enough, even if better distributed, to confer the conditions of a comfortable and cultured life upon the whole community . . . we are driven to the conclusion that the nation is still poor, and that what material wealth it possesses is the thinnest of veneers'. Analysing the question from a different angle, Dr. Bowley concluded that 'the wealth of the country, however divided, was insufficient before the war for a general high standard; there is nothing yet to show that it will be greater in the future. Hence the most important task – more important immediately than the improvement of the division of the product – incumbent on employers and workmen alike, is to increase the national product, and that without sacrificing leisure and the amenities of life'.

That pre-war century, then, did its best. But the best was not good enough and only looks good when compared with the deplorable poverty from which it rescued mankind, or at least the leading civilized countries. During its course, however, a great stride forward was taken and amazing successes were scored all along the line of material progress, except in the matter of reducing inequalities of wealth.

How it was done has been brilliantly told in Dr.

Clapham's *Economic History of Modern Britain.* Here, we need only touch on the period's main features. Inventors and scientists were making discoveries that changed the whole aspect of man's struggle for life, by creating for us those mechanical slaves, in the form of spinning and weaving and other machinery, railways and steamships that provided and distributed in immensely greater quantities and at much lower prices, the goods and services required to give the quickly growing population four times as much command of necessaries and comforts. This process of invention, and of improvement of inventions, was continuous; and it was not until towards the end of the century that some of the discoveries were made that have been, in their effects, as revolutionary as the application of the steam engine to industry and transport. It was only in the 1890's that the safety bicycle and the pneumatic tyre made cycling a general pastime and a cheap means of movement, and up till the outbreak of the war motoring was still largely a rich man's monopoly. The harnessing of electricity had come rather earlier, but its use also was in a comparatively embryonic state when the war came, at least in this country, where it had been held back by official regulations and the inertia of Parliament and the public offices. It had done much for us in the matter of lighting, transport and communications and in quickening the spin of the wheels of industry; but the domestic revolution that is now in progress, thanks to the work of the electrical slave in our homes as heater, cook and housemaid, had hardly begun. Agriculture had been created and expanded in the new

countries by the cheapening of transport, and especially of transport by sea, which had brought supplies of cheap food for the industrial workers in the old countries and raised difficult problems for their farmers; in its case also the mechanical slave, doing the work of threshers, mowers and reapers, had set human labour free; but the full possibilities of the motor-tractor had hardly been discovered before the war, and, as we shall see later on, discoveries of science concerning the ease with which the world's bread-basket can be filled have been in recent years amazingly hopeful from the consumer's point of view.

So much had to be said about the continued progress of invention and science to show that there is no reason why the growth of productive power achieved in the pre-war century should not be equalled and exceeded in the time that lies before us, if mankind will have common sense enough to apply invention and science to productive purposes rather than to those of mutual destruction. Also, as an antidote to Dr. Bowley's depressing observation – why is it that so many statisticians seem to delight in being dismal? – which told us, a page or so ago, that 'there is nothing yet to show that the wealth of the country will be greater in the future'.

For the moment, however, we are concerned with the actual achievement of the pre-war century, or rather with the conditions under which it was secured. It was a time of huge experiment, in which Britain, having helped to free Europe from Napoleon's domination, gave all her energies to creating and training the mechanical slave and teaching the rest of the world to

make use of it, in producing and exchanging more and more food and comforts for more and more human beings. My old friend Harold Cox once amused the House of Commons by pointing out that a large part of the population of this country had been made by machinery; and it is certainly true that the Industrial Revolution, with all its crimes and horrors, gave the gift of some sort of a life to many millions.

As to its crimes and horrors – women and children worked like beasts of burden, disgusting industrial towns huddled together anyhow and all the rest of it – let us thank God that such things cannot happen now, and do the best that we can to clear away their effects, bodily and mental, that are still with us, in the shape of slum areas, disease and a legacy of bitterness. Like all other experiments, the process of industrialization brought in its sheaves of tares along with its more wholesome harvest. What we have to consider are the causes which helped and hindered the work of those who applied the fruits of invention and science to the service of man.

Outstanding among the helpful influences was the fact that the space between Napoleon and Kaiser Wilhelm – or whoever it was that let loose the dogs of war in 1914 – was one of peace. Wars there were, but, compared with those of the previous century, which had ranged from Russia to Quebec and had involved all the Powers that then had any pretence to civilization, or with the world-wide butchery that lately came so near to destroying Europe, they were all fairly short and were confined to few combatants.

Another influence that furthered the growth of trade

was the abolition of many restrictions on the exchange of goods across frontiers, owing to the consolidation of the German and Austrian Empires and the establishment of free trade in Britain. Combined with the cheapening and quickening of transport, by the development of railways and steamships, this opening of markets made it possible to apply internationally the division of labour that had revolutionized industry, and to produce articles in those countries which were best able, owing to climatic or other conditions, to furnish them.

Such were the benefits – peace and open markets – with which the governmental producers, the politicians and officials who rule us, conferred on trade. Negative benefits, perhaps, because they merely meant that the governors were interfering less than before with industrial and commercial enterprise, but enormously important, as was shown by the eagerness with which business organizers in search of profits seized on the chance that was given them. Business organizers could have done little to promote the great advance in production if the inventors and scientists had not shown them how to make the necessary tools. But it is equally true that scientists and inventors, generally unpractical and more interested in dreaming about their next victory than in applying the last, would have wasted much of their ingenuity if their discoveries had not been grasped and set to work by business men. These last saw in science a source of possible profit, and also possessed, or could command, the necessary capital for its application on a commercial scale, and above all, owned the organizing and driving power

required to force something new down the throat of a highly conservative public.

Those were the days, especially in the early part of the period (when, incidentally, as Sir Josiah Stamp has told us, progress was most rapid) of unrestricted and rampant capitalism, taught by Adam Smith and his followers that 'by directing industry in such a manner as its produce may be of the greatest value' every individual while seeking only his own gain, is 'led by an invisible hand' to promote the general interests of the community (*Wealth of Nations*, Book IV, Chapter II).

Misunderstood and misapplied, and taken without the obviously necessary reservations, this doctrine would seem to encourage employers to think of nothing but the greatest possible profit for themselves, leaving it to the invisible hand to comfort those whom they might cheat, rob, underpay or overwork in the process. Such a conclusion, of course, was very far from Adam Smith's intention, as is shown in many passages of his work, and especially in one in which he alludes, with obvious disgust, to combinations of masters to 'sink the wages of labour' and to their being 'always and everywhere in a sort of tacit, but constant and uniform, combination, not to raise the wages of labour above their actual rate'. Nevertheless, the notion that each for himself, working without any restraint in the public interest or in that of those whose bargaining power was never equal to that of the employers, would by some magic influence be guided to do what was best for all, led to many of the evils that were associated with the domination of the doctrine,

misunderstood and carried to extremes, of *laissez faire*, or 'leave us to do our job'. In excuse for those who misunderstood it and carried it to extremes, we must remember that they acted under the influence of violent reaction against controls and restrictions exercised by the State, which had been even more pernicious in their effects.

Spurred by such comforting encouragement, capitalism committed the crimes and blunders for which it and its heirs afterwards had to pay and are still paying, but it did deliver the goods. Britain became the workshop of the world, opening up new territories, filling them with emigrants and fertilizing them with capital, which it placed with such effect that when the war came, she was estimated to possess something like £4,000 millions' worth of oversea investments, about half of which had been put into her own Dominions and colonies and the rest all over the world, in Europe, China and Japan and, above all, in the Americas, especially in the United States.

In the early days of this process there was a good deal of dirty business, such as loans to potentates and governments that wasted so much of the proceeds as got into their hands after toll had been taken by corrupt intermediaries, the said loans thereafter being a charge on revenues wrung from taxpayers who had got little or no benefit from them. In its influence over the early developments of foreign investment, Adam Smith's 'invisible hand' was sometimes not only invisible but ineffective. Nevertheless, these blots on the first few pages of the pre-war century's history were rare, and need hardly be noticed when viewed

in relation to the great worldwide progress that was secured by the outward flow of British capital. This capital was sent out in the form of goods – consumption goods such as clothing and coal, and capital goods, for promoting production and distribution, such as machinery, locomotives and rails. By lending and investing abroad, British capitalists thus gave the rest of the world a short cut to prosperity and fed British industry with orders and gave employment to its organizers and workmen and dividends to its shareholders, who were becoming an increasingly important part of the business population, owing to the rapid development of the joint-stock system, which was another of the helpful features of this period.

Another one was the growing power and political influence of organized labour. The career of capitalistic crimes and blunders was short-lived, being promptly checked by the efforts of enlightened employers, who assisted the work of reformers such as Lord Shaftesbury, and by the determination of the manual workers to secure better conditions, and the success with which they did so, after a long and difficult struggle, thanks to the establishment of trade unions and the political power which they gained by the widening of the franchise and the consequent quickening of the interest of Parliament in their welfare.

Finally, the growth of the industrial unit in size and in diversity in production and distribution is certainly another of the developments which have promoted the comfort of consumers. The inevitable result of this process is mass production, which can only be applied profitably if mass consumption is there to take

the product; and mass consumption is only possible when manual workers and salary earners are well paid and so can afford to buy, and at the same time have leisure in which to enjoy, the stuff that mass production turns out, from motor-cars to stockings. Its full development may perhaps be said to have begun during the war, but it was implied in the process of amalgamation, combination and extension of industrial and distributive plants, which were a marked feature of the latter part of the pre-war period.

Behind these forces which were making for increased production and consumption there was a great growth and improvement, marred especially in the early part of the period by disastrous blunders and misdeeds, in the shape and stature of the monetary and financial handmaid, whose influence for good and evil had been strong long before the industrial revolution, over the material fortunes of mankind. As to the weight to be attached to this influence, opinions differ widely. Macaulay, in Chapter XXI of his history, tells us that 'it may well be doubted whether all the misery that had been inflicted on the English nation in a quarter of a century by bad Kings, bad Ministers, bad Parliaments and bad Judges, was equal to the misery caused in a single year by bad crowns and bad shillings'. He was writing of the seventeenth century. Against him we can set Marshall, the great Cambridge economist, who, writing towards the end of the pre-war period, said, 'I am never weary of preaching in the wilderness "the only very important thing to be said about currency is that it is not nearly as important as it looks" '.

We may, I think, draw the comfortable conclusion that both these eminent authorities were right. In the time of which Macaulay was writing, before the effects of changes in the quantity and quality of money were properly understood, their influence may well have been such as dramatically set forth by the historian. By Marshall's time, important as they still were and as he by implication admits, they had been drastically diminished by the increased honesty and intelligence of those who regulated the currency, at least in Britain, and by the capacity of the business public to make adjustments which modified them; and it was not until the after-war time that the achievements of Germany and other countries in currency depreciation showed what bad money could still do in creating misery and chaos.

Nevertheless, even such a cursory sketch as this of the material progress of the pre-war period cannot omit some reference to its monetary and financial aspects, voluminously as the subject has already been treated by hundreds of writers, and dull as it is to the great majority of readers. Scrambling quickly through, rather than over, this thorny and formidable fence, we note that this was the time when the gold standard, originally adopted by England, through one of her fortunate flukes, spread its domination over all the economically civilized world, though in slightly varying degrees.

Under the gold standard, the exchange value of the moneys of all the countries that had adopted it was kept constant, subject only to narrow limits of fluctuation. This meant that when a merchant bought or

sold goods abroad, to be paid for some time ahead, he could rely, if buyer, on being able to turn pounds into foreign money, to pay his seller, at a rate which would differ little from that current at the time when the bargain was made; and, if seller, on being able to turn the foreign money that he was going to collect into a number of pounds that could be calculated with equal certainty. This stability in rates of exchange, conferred by the gold standard, was evidently a valuable convenience to traders.

To financiers and providers of long-dated loans, it was even more important, for some of these loans were arranged for periods ranging up to fifty or a hundred years. It is true that British loans to foreign countries or enterprises were usually made on a sterling basis – the borrower pledged himself to pay interest and repay the capital in our money. But his ability to do so was evidently likely to be greater if he could rely on turning his local money into pounds at a rate which would be kept steady during the life of the loan.

The golden link between the moneys of all the principal countries thus conferred very definite advantages on business. On the other hand, under the gold standard, the quantity of money that the producing and trading community could handle was roughly limited by the amount of gold, already in existence and being dug out of the mines, that was available for coinage. It is true that the banking system, by printing notes and providing its customers with cheque-books, greatly expanded the work that the gold coins could do. They lay in the banks' vaults, and the pieces of paper that represented them circulated in exchange for goods

and services in quantities vastly greater than that of the coins. But the fact that the paper gave its owners the right to claim gold, meant that they could not be multiplied beyond the point that the bankers thought to be prudent; and so the quantity of gold was always an influence, expansive or restrictive, on the quantity of money.

Now it is roughly true that more money in circulation means higher prices of goods and services, and *vice versâ*, though the Quantity Theory of money, the working of which has already been hinted at on p. 19, is another highly controversial question. But obviously, other things being equal (which they very seldom are), with a given quantity of goods and services to be exchanged, an increase in the volume of money in our pockets and our bank balances will mean that we shall have to give more money for whatever we want to buy; and if the volume of money shrank, such of it as was left would be more effective in purchasing power, because prices would have to fall.

It thus followed that discoveries of gold, such as happened in California and Australia in the middle, and in South Africa at the end, of the pre-war period, caused rising prices; and a scarcity of gold, such as happened in the last half of the nineteenth century, when Germany, France and other countries were adopting the gold standard, was one of the causes of the fall in commodity prices which was almost continuous (with an upward kick for the Franco-German war), from 1857 to 1896.

Such fluctuations in prices are disturbing to business progress, because they alter the share in the

product of industry received by different classes of the community and so lead to discontents and friction. When prices rise, the primary producers, farmers and miners, get more, and organizers and shareholders also benefit; but the wage- and salary-earners are damaged unless they can secure higher pay, and the creditors and rentiers, whose claim is for a fixed sum of money, find that their incomes have less purchasing power. At the same time, when prices are rising, the organizers, seeing larger profits more easy to be earned, are full of enterprise and confidence and the wheels of industry spin quickly and labour is in demand, and so gets its chance of improving its money wage. It is a commonplace in the business world that rising prices are good for trade. When prices fall, all these tendencies are reversed, though the ingenuity of industry is stimulated to find means of adjustment and to counter the effects of lower profits by searching for lower costs of production.

Upward movements in prices also stimulate speculation and over-confidence, and so we find that the course of the pre-war century was punctuated by constantly recurring crises, many of which originated in the United States, where unrestricted capitalism was particularly rampant and wicked, and the banking system was amazingly ill-constructed, so much so that it seemed to be specially designed to make currency scarce when it was wanted and over-abundant when it was not, and to maintain a steady supply of bank failures as a normal feature of the country's business outfit. On our side of the Atlantic the period began with a host of little weak banks which failed in hundreds between

1815 and 1830, and ended with a constantly dwindling number of greater and stronger institutions, managed so prudently that bank failures were a thing of the romantic past.

At the same time, the machinery of finance and investment had been improved by the growth of responsibility among those who worked it and of a public better educated in these matters, largely thanks to the efforts of an honest and intelligent Press.

After a serious crisis in 1890, met with comparative calm by the City, owing to the skilful leadership of the Bank of England and the co-operation of other financial leaders, we had no home-made financial upset until the war knocked the whole machine to pieces.

Summing up the pre-war period, we see that it was one of great material advance, in which all classes shared equally, due to science and invention, applied by profit-seeking capitalism, freed from controls and trade barriers that had restricted expansion in former times, and heartened by the incalculable blessing of a long spell of peace. This material progress had been spread abroad by the world-wide outflow of capital from Britain, France and other European countries.

CHAPTER III

WAR-TIME'S INCREASE

War 'Too Good to Last' – World-wide Growth of Production – Britain's Effort especially Remarkable – Not done out of Capital – We Lent Abroad More than we Raised Abroad – Nor at Expense of Posterity – Our Effort Made out of Our Own Resources – Centralized Control – How Much Did It Help? – Muddle and Blunders – Hard Work all Round – Labour 'Diluted' – Increased Employment of Women – Machinery's Freer Chance – Restraint on Luxury Spending.

AFTER all that was said in Chapter I about the devastating effect on trade of war and the fear of war, it may seem strange to find that the early years of the greatest war that ever afflicted civilized mankind were a period in which an astonishing advance was shown in our power to produce good things – or rather things that might have been used for good purposes. As it was, most of them had to be used for checking, as we hoped, the progress of tyranny and force-politics, which was, in one sense, a very good thing to do; and this necessity was imposed on us by the failure of the governors and rulers, in other countries and perhaps to some extent in our own, to provide the peace and security which are the most important articles that we expect them to deliver.

Even so, however, war-time's increase in prosperity amazed those who enjoyed it, from stock-jobbers who

had expected ruin, to manual workers who anticipated unemployment and privation. The story was well known in those days of the charwoman who said, 'This war's too good to last'. Her husband, who had joined up and was in training, had been a liability rather than asset to the household; and she found herself relieved of the necessity for contributing to his maintenance, and at the same time provided by the Government with allowances for herself and her children which gave her a scale of comfort that had hitherto been beyond her happiest dreams. In varying degrees, this sort of experience was surprising other countries. As Mr. G. D. H. Cole puts it, in a book called *The Intelligent Man's Guide Through World Chaos*, 'The world's productive effort during the years of the war was altogether extraordinary in its demonstration of the huge powers of production at man's command; for, despite the large proportion of the manhood of all the belligerent nations that was taken wholly away from productive work and the high proportion of the total output that was put to purely destructive uses, a large part of the world's population succeeded in living between 1914 and 1918 at a higher standard of consumption than ever before. The war, in fact, provided the most convincing demonstration of the enormous growth in man's command over Nature and of the huge increase in output which the centralized control of the national life everywhere made possible'.

It is true that towards the end of the struggle the civilian populations began to feel the pinch. Butter became a luxury here, and there were ration-cards and war bread and other unpleasantnesses that left a

deep mark on some of our digestions. But this was less owing to failure of output than to the growing efficiency of destruction, showing itself in Germany's submarine campaign, which came within measurable distance of starving the Allied nations into surrender.

This effort in amazingly successful production under unprecedented difficulties was all the more remarkable in the case of Britain, because she found it necessary, not only to carry out the task that had been beforehand assigned to her – of maintaining the naval supremacy of the Allies, providing financial assistance and putting a small expeditionary force on the left flank of the French defending army – but also to create and equip a British army on a Continental scale.

All these things were well and truly done by a country that had previously been written off by many of its enemies and by some also of its most patriotic citizens as a decadent back-number. And the success of this effort, carried out under these conditions, should surely throw a good deal of light on the problem of making the apparently much less difficult effort required to provide our population with a great improvement on the inadequate standard of comfort that it possessed before 1914. How was it done? Faced by this question, most people reply either that we did it by drawing on our capital, or that we did it at the expense of posterity, to which we left the task of paying for all that large part of the war's cost that was met during its course by borrowing and the creation of war debt. But neither of these explanations will hold water.

A nation can only provide itself with food and

materials out of capital either by using up accumulated stocks, or by buying them abroad with money borrowed abroad. Both these devices we applied to the problem of war supplies, but in both cases we did a good deal more on the other side of the account.

We certainly used up accumulated stocks of food and materials; but we more than replaced them as the war went on, for when it was over we found ourselves in possession of great heaps of war stores, the disposal of which during the first years of peace was a long and delicate business. And we certainly raised loans in America and in several neutral countries for the purchase of commodities; that is to say, we induced governments and private investors abroad to lend us the money to pay for things that we needed, by giving them promises to pay the money some day and interest in the meantime; and to some extent our purchases of war stores were financed by selling abroad part of the foreign investments that we had, as shown on p. 39, acquired during the pre-war period. But against these drafts on our accumulated capital and this pledging of our future productive power we can set the fact that we lent to our Allies and Dominions considerably larger sums than we raised by borrowing. On balance, setting our loans to Allies and Dominions against loans raised and securities sold abroad, we actually increased the amount due to us on oversea capital account. The fact that a large part of the sums that we lent for war purposes ultimately had to be written off as bad debts has nothing to do with the present question. The fact remains that all the goods and services that we bought

abroad on capital account during the war, and a good deal more, were consumed, not by us, but by the Allies and Dominions whom we were supplying on capital account. So that everything that we got for ourselves, and more, was provided by our own productive effort, or in exchange for goods that it sold abroad.

Still less can we account for our success in providing our war needs, and at the same time raising our general standard, by saying that we performed this miracle at the expense of posterity, by raising war loans at home. It is true that the lavish use made by the Government of its borrowing power and the inadequate use that it, as compared with its predecessors at the time of the Crimean and Napoleonic wars, made of the weapon of taxation, were plentifully and justly criticized during the war, and caused a great increase in its cost.

But no country has ever yet succeeded in inducing or forcing its posterity to provide it with goods and services needed at any present moment. When we raised our domestic war debt we merely persuaded certain members of our population – individuals, firms or companies – to provide the Government with some thousands of millions of money against Government securities, which they would be able to sell in the stock market if they wanted to do so, and on which they would receive interest. If the subscribers to the loans were ordinary individuals, this process merely meant that they handed over this money instead of spending it, and so they paid for the war, to that extent, out of their own pockets, and their demand for

goods was converted into a demand on the part of the Government. If the subscribers were banks, there was no transfer of demand, but merely a creation of fresh money, owing to the power exercised by our banks to produce money by lending it.[1] This creation of fresh money was one of the causes of the rise in prices which added so much to the cost of the war and led to so much friction and misunderstanding during its course.

But in whatever manner the money needed for the war was raised, it obviously had to be spent on the necessary goods and services, which had to be produced then and there. It was not possible to fight with shells to be made by posterity, any more than it was possible to make posterity turn out and fight our battles. And these goods and services had to be paid for then and there, or we should never have got them.

By raising loans to provide the money, we have bequeathed to posterity a liability, which, as long as it pays the interest and redeems the loans, it will pay to itself – collecting the money from taxpayers and handing it over to debtholders. All that we shall have done will be leave behind us an arrangement which will affect the distribution of posterity's income; but we shall not have succeeded in getting one penny of posterity's income for our war-time needs. As to the foreign war-debt, its service, when resumed, will only mean that our posterity will pay something to America's. This will be a real drain on its resources, but only because the Ally borrowers whom we financed in war-time with money raised in America have been unable or unwilling to meet their obligations.

[1] As explained in my *Meaning of Money* and the works of many other writers.

Our war effort, then, was made not out of our accumulated capital or with the assistance of foreign money or with that of posterity, but by means of our own productive power, in spite of the fact that the most vigorous members of our population were at the Front or in training for the Front. And we still have to answer the question, how it was done.

Mr. Cole, in the passage quoted above, pointed to 'the huge increase in output which the centralized control of the national life everywhere made possible'. As a convinced and brilliant champion of Socialism, he naturally finds the explanation in the fact that the Government took charge of the nation's productive activities; and Socialists, and the 'planners' who have adopted so much of their doctrine, are fully entitled to point this moral. Governmental control, when readily responded to by a united nation working for the preservation of its liberty and prepared for the moment to sacrifice even liberty to preserve it, ought evidently to be able to stimulate production with much more efficiency than the haphazard, hit-or-miss methods of competitive private enterprise, working to provide consumers with all kinds of articles that they may or may not want to buy.

But even during the war, when all that the Government had to do, on the productive side of its problem, was to direct the efforts of the nation towards an object which it was desperately eager to achieve, the efficiency of the Government was so costly and was marred by such a mass of miserable muddle that it is difficult to be sure whether our productive power was in fact materially furthered by it or not. In the

circumstances, Governmental direction of industry was evidently inevitable. That it should have involved terrific waste, at a time when victory was the only thing that really mattered, was also, perhaps, a necessary consequence. But the many blunders and absurdities, the story of which made a running accompaniment to our history at that time, may be taken as a warning against expecting too much from a Consumers' Paradise to be manufactured in Whitehall. Indignant refusal by the Army to allow recruits, badly wanted for munition-making purposes, to go back to the factories in which they had held important key posts and could do much more effective work for victory than by digging trenches and learning to form fours; doctors and dentists, sorely needed behind the Front, set to peel potatoes in training camps at home, or actually, in one notorious example, marooned for months on an island in the Ægean with no one to practise on but one another and their orderlies, of whom three perished in the process; an unfortunate accident by which a list of officers recommended for the M.C. changed places with a list of officers due for inoculation against enteric; and so on *ad infinitum*, as anyone with a good memory who can put his mind back into those amazing days can recount. Worst of all, perhaps, in some ways, was what was called the inter-departmental front, the 'war, bloody war' between the Admiralty and the War Office, with minor departments skirmishing on the flanks, in their competition for supplies; and the huge profits that some professions and most industries were allowed to make, and then were (in some cases) obliged to

disgorge by the belated and capricious Excess Profits Duty.

Against all which it is only fair to set the fact that Governmental control was far from complete and was engaged in meeting a sudden and desperate crisis, working with an enormously increased and largely untrained staff, and making use of outside assistance which was not in all cases entirely helpful and disinterested. On the other hand, its task was greatly lightened by its being able to apply the methods and use the efforts of organizations that had been built up and developed by the system of private enterprise. There is so much to be said on both sides that we are left free to take our choice, whether we agree with Mr. Cole in ascribing our immense increase in output entirely to 'centralized control of the national life', or prefer to ascribe it to the whole-hearted effort of a nation trained to industry under private enterprise. Our decision will probably depend on the view that we take about the rights of property and the extent to which we think that they are likely to be threatened by centralized control, which is another name for Socialism; and still more by the depth of any convictions that we may have about the benefits of liberty and the degree of personal liberty which we think that we are likely to enjoy if the Socialists take charge of our destinies.

Leaving this difficult question to lie, as Homer says, 'on the knees of the gods', let us look at other features in our national life which distinguished it during the war.

First and foremost was the fact that everybody who

was able to work, worked harder than ever before – over-worked in fact – with effects, incidentally, on their nerves which may account for some of the eccentricities of the generation that was begotten and brought up during and after that period of strain and anxiety.

Still more important, perhaps – for a Consumers' Paradise gained by a too exhausting effort is by no means what we are seeking – is the extent to which, at a time when there was more than enough work for all human hands and brains to do, trade union rules were temporarily waived, labour was diluted, women were set to tasks, and generally did them well, which had hitherto been reserved to men, and the mechanical slave was very nearly allowed to do its level best. Then it showed employers the way to the mass production which has conferred so much benefit on consumers, and may some day allow us, by cheapening the production of articles, such as saucepans, the shape of which is comparatively unimportant, to afford to employ real craftsmen on making things such as clothes and boots, and beautiful furniture, which make so much difference to our personal comfort.

At the same time, expenditure on luxuries was rigorously curtailed, partly by the missionary work done by the War Savings Committee, which urged all classes of the civilian community to spend as little as possible, so that more goods and services might be available for the men at the Front, and partly by the difficulty of getting luxuries, which restrained the extravagance of those whom the patriotic appeal left cold.

Through these two influences, the whole effort of the nation was concentrated on providing first the needs of the fighting services and then the sufficient food and necessaries required by the working population at home; with the result that Mr. Lloyd George was able to say in 1919 that, during the war, there had been no poverty comparable to that which existed before it.[1]

In the early days of the war a friend of mine who was accustomed to spend the autumn months in motoring tours on the Continent, told me that this international struggle seemed likely to put too much money into his pocket – instead of shipping his car to Holland and starting off himself, plentifully supplied with travellers' credits, to explore his favourite haunts in Germany and Italy, here he was boxed up at home, with no petrol to be got, his chauffeur joined up (he himself was over sixty and the Army did not want him) and all his friends and acquaintances busy on war work. In fact, of course, he soon found war work to do himself and any money that he saved went either into the tax-collector's hands or into war loans. But this compulsory saving, which was a common experience among the wealthy, must have been an important cause of the ease with which the national resources were devoted to the task of winning victory and at the same time sufficed to raise the general standard.

That luxury spending was by no means stopped, however, when war profits and war wages began to pour money into pockets unaccustomed to receive so much of it, was shown by the introduction of the

[1] Quoted in *War Finance*, by F. Fairer Smith.

'McKenna duties' on motor-cars, clocks, musical instruments, etc., in order to save the shipping space absorbed by these articles. This was the first breach in the walls of the free-trade system which had helped the growth of wealth, here and all over the world in countries which had waxed fat on selling in our open market, during the pre-war period.

This important effect of saving, voluntary and enforced, on the general standard of the country is very relevant at a time when so many experts on these subjects are telling us that saving is a mistake and is, in fact, a cause of trade fluctuations and depressions. This is a matter that will have to be discussed later. For the moment, it is enough to remind ourselves that at the time when this country made its most magnificent productive effort in equipping its forces and improving the comfort of its workers, a certain amount of austere restraint in spending was observed by, or forced upon, its wealthy classes.

CHAPTER IV

AFTER-WAR RECOVERY

Seven Years of Progress – The U.S. Hero of the Piece – The Old World's Responsibility for America – America's After-War Generosity – Incompatible Business Ideals – Back to 'Normalcy' – The Pre-War International Capital Market – France no longer a Long-Term Lender – 'Hot Money' – America fills the Gap – With a Vengeance – Bankers' Huge Profits – Fraudulent Prospectuses – As once in London – The Chivalrous American Lender – Idealism, Greed and Disgust – Their After-effect – Rapid Rate of Lending – Its Temporary Good Effect – The Tap turned off with a Jerk.

THERE is no need here to remind ourselves of the high hopes of a better world with which we greeted peace in 1918, and of the quick disenchantment that followed the discovery that we had not reached peace, but only the end of one war and the beginning of another, less deadly in human life but in some other respects even more poisonous to real prosperity.

Confining ourselves strictly to the business aspect of after-war history, we note that after a hectic boom in trade which lasted until the spring of 1920, there was a violent collapse marked by a very rapid fall in wholesale prices, until something like stability in prices was reached in 1922 and was maintained with a slightly dwindling tendency for seven years, until the crisis of 1929 precipitated a fresh headlong tumble.

During those seven years general prosperity, in so

far as it is indicated by the volume of world trade, made a very substantial recovery, rising well above its level in 1913, the 'best year ever' of the pre-war period. In this general prosperity Britain did not, for reasons which will have to be noted, get her full share. The hero of that resounding melodrama, who held the front of stage throughout it, was the United States, in its new character as creditor of all the world and master of the economic destinies of civilized mankind.

Many hard things have been said, and especially by Americans, about the way in which America played this part; but if any stones are to be cast at this culprit, the first had better be thrown by any country that was without sin among us at that time. Just as the Jews are, both in their good and their less attractive qualities, mainly what they have been made by centuries of persecution and robbery at the hands of so-called Christians, so the Americans are what they have been made by Britain and Europe, with the additional influence of a wilderness that had to be cleared and conquered. During more than two centuries Europe and Britain had sent across the Atlantic a rapidly growing stream of usually illiterate or half-educated emigrants, the great majority of whom went westward because they were dissatisfied with conditions at home, and many of whom, especially those from Ireland, resented and hated the political system under which they had been born, and regarded government as a hostile and tyrannous body, to be defied, defeated and exploited by every possible means.

In this way the Old World had created, out of a mixed medley of rebellious ancestors, highly critical of

European and British feudalisms and conventions and institutions, a nation determined to work out a better destiny for itself than can be hoped for (in its belief) by the countries of its origin. The wealth of the land that it has reclaimed and the energy with which it has carried out this task has now, combined with the impoverishment that the Old World has inflicted on itself by its wars and bickerings, given the United States a commanding position in the markets of the world. If the mercurial temperament and lack of restraint shown by its inhabitants are a serious menace to the future prosperity of other countries, we and our European neighbours have only ourselves to thank for having let loose an annual consignment of discontented and undisciplined critics and encouraged and assisted them with plentiful doses of capital and credit, to grow into a position of strength great enough to make their eccentricities inconvenient.

Made more critical than ever of its eastern opposite numbers by the ambitions and follies which set them by the ears, and by the bungling in action and mendacious propaganda by which the contest was accompanied, America seems to have been determined when the war was over, thanks to her intervention, to show the rest of the world how its business activities were to be conducted.

For this task she was in many ways well equipped. She had made enormous profits (mostly in paper that was subsequently found to be worthless) by selling food and materials to the warring Powers at extravagantly inflated prices. So she had leapt at one bound into the position of world creditor, which, but

for the war, she would only have reached by gradual stages, during which she would have learnt to understand the responsibilities involved by it. As it was, she found herself possessed of immense power and an unfortunately mistaken belief that she knew how to use it for her own benefit and for that of her debtors. Convinced, and with good reason, that the European war mess had only been brought to an end by her action, she set out to show that in business matters, which really interested her, she would clean up the after-war difficulties with equal success.

With the miserable story of the Peace Treaty and the League of Nations, forced upon the Ally powers by President Wilson and then torpedoed by America's refusal to join it, we are not here concerned; though the bitterness produced on both sides of the Atlantic by these happenings have been a serious obstacle to the revival of general prosperity. What we have to show is the method by which, under America's leadership, a considerable measure of material prosperity was actually achieved in the period from 1922 to 1929.

It must never be forgotten that the first use that she made of her war-made wealth was to give away heaps of it. Mr. Herbert Hoover, whose subsequent Presidency was so disastrously marked by business depression, staged a generous first act in the peace drama by organizing relief with American funds in those areas of Europe that were threatened with famine, from which they were rescued by his and his co-workers' efforts.

Then she settled down to business, intoxicated by her sense of world supremacy and of her own almost

inexhaustible resources, and encouraged by the establishment of a beautiful new monetary system warranted to supply an unlimited amount of credit and currency. What she seemed to desire was to sell as much as possible to everybody, lend as much as possible to everybody, collect the interest on her war debts (though making handsome concessions concerning them which her debtors are too apt to forget) and at the same time buy as little as possible from the rest of the world. And, of course, any child's text-book of economics, to say nothing of the business common sense of the average office-boy, could have shown that these ideals were mutually destructive.

Looking back for a moment at the conditions under which the century of pre-war progress had achieved its successful, if unsatisfying, growth of production and consumption, we found in Chapter II that the most important of them, apart from a long period of freedom from world-wide wars, were wider-opened markets, with an absolutely open door to the market of Britain, then the chief world creditor, a free and well-supplied international capital market, by which the development of materially backward countries was promoted, and the existence of the gold standard, which linked together the moneys of the principal trading nations. These features, combined with the progress of science and invention, were the chief causes of the general rise in the standard of life that marked the century between Waterloo and Serajevo.

When, in the nineteen-twenties, there was a general desire to get back to pre-war conditions – 'normalcy' as Mr. Hoover so unmusically christened them –

America was the only country left with its gold standard intact, though other countries, led by Britain, later executed a precarious return to it. Touching the international capital market, America was more than ready – in fact, much too ready – to fill gaps in it left by the impoverishment and fears of the ex-belligerents; but in the matter of trade freedom, the world-creditor could not see that a creditor who puts difficulties in the way of debtors in paying their debts is encouraging them to default.

All the world owed America dollars, and these dollars it could only find either by sending gold to the United States, or by selling goods and services to them. In so far as they sent gold, they reduced the basis of credit in their own countries and piled up in America a mountain of metal that was a nuisance more than a benefit to her. When they wanted to pay in goods and services, they found themselves faced by America's ingrained prejudice in favour of high protection.

An article in *The Times* of August 2, 1938, on Mr. Cordell Hull and his 'herculean labour' of breaking down economic barriers between nations, pointed out that 'from 1800 to 1930 tariffs had been steadily pushed upwards, as each passing crisis proved the prelude to a fresh upward surge of business. In 1930 the Smoot-Hawley tariff hit the sky'. Thus, at a time when international trade was already hampered and restrained by the creation of 2,000 miles of new tariff barriers by the new States created by the Versailles and other treaties, America joined in the conspiracy to undermine the only sound means of international payments by maintaining and finally raising an already high

tariff wall against manufactured goods; she also, by giving artificial encouragement to her merchant shipping, made it more difficult for her seafaring debtors to meet their obligations by earning freights for carrying her goods.

In such an atmosphere of repression it is amazing that world trade should have been greater in volume by more than a quarter in 1929 than in 1913. Mankind's determination to trade across the frontiers was never more strikingly shown.

But a creditor who will not take goods and services in payment – or only in so far as it needs to import certain raw materials – can find a means of providing its debtors with the necessary money – namely, by lending it to them. This system, of course, only postpones the day of reckoning and makes the problem all the more acute when the day of reckoning arrives; but as a temporary and very dangerous makeshift it can serve its purpose for a while, and it did so with some success in the after-war decade.

Before the war, America was still a debtor country and the international capital market was chiefly supplied by Britain and France, with Germany rapidly growing in importance as a lender, while the smaller markets, such as Holland, Belgium and Switzerland, helped to swell the stream. These former providers were naturally unable to take up the task of supplying their neighbours with capital with the ease and freedom of pre-war days, at a time when they were struggling with their after-war problems. Britain was working with honourable zeal to restore her pound to its pre-war exchange value, and was, in fact, so zealous

in this endeavour that she is now generally believed to have screwed the pound up too fast and so to have been responsible for a good deal of subsequent mischief. France, dissatisfied with the terms of peace, and aggrieved by the refusal of America and Britain to confirm the guarantee of the French frontier promised by their Governments, felt that she had been left face to face with a powerful enemy, which was only biding its time to repeat the invasions of her territory of which it had twice been guilty within the space of two generations. France, accordingly, was no longer an international lender on the old system, by which loans were made for long periods, so that the borrower might have time to increase production so as to meet the charges involved. France was preferring to keep her money in hand; and in so far as she was not stacking it up in the form of gold, was placing it abroad (if at all) on deposit with banks or invested in securities such as Treasury bills which could be turned into cash at any time and brought home.

France was thus laying the foundations of a system which is one of the new-fangled nuisances of the after-war period. Under it, timid investors in many other countries have acquired the habit of placing their funds abroad 'at call' – on terms that enable them to demand its prompt repayment; and they shift it from one centre to another under the influence of fears that it may be taxed more than they like at home, or that their domestic money may be deliberately devalued, or written down to a lower exchange value, or occasionally that it may be confiscated by a victorious invader when the next war comes. This kind of money is sometimes

known in London as 'funk money' or 'bad-tempered money', and has been more kindly described by Mr. Roosevelt as 'hot money'. Its total amount has lately been enormous, being estimated by the Bank for International Settlements to have stood at about £2,800 millions in 1930.

Short-term deposits have always, of course, been part of the machinery of the international money market, since it has always been necessary for traders and financiers to keep a certain amount of money in various centres for the purposes of legitimate business. But their use as a refuge against political and other fears on this monstrous scale, is a new portent in the monetary sky and has obliged the authorities in countries that are afflicted with these inconvenient lodgers to make elaborate provision, by means of Exchange Equalization Funds, against their sudden departure for some other climate which may seem to their owners to be at the moment more favourable to their healthy existence.

There was thus a big gap in the international monetary machine to be filled by the United States, if a return was to be made to the system by which world trade was largely financed 'on tick', through the issue of long-term loans. France was out of the business for reasons given. Germany was much too busy in proving that she could not pay her Reparations bill to think of lending abroad; and the smaller centres all had their difficulties and apprehensions. Britain was trying to screw the pound up to its old exchange value and keep it there and at the same time set international trade going, and was also afflicted with internal

industrial unrest which culminated in the Coal Strike and General Strike of 1926. She nevertheless succeeded, during the years 1924 to 1930, in lending abroad at an average rate estimated at about £105 millions a year, against £160 millions in the five pre-war years. (Such estimates, however, have to be taken with a good deal of caution.)

Here then was a glorious opportunity for the United States to stand forth on the international stage as the new world's financial leader. If she had wrecked the Peace Treaty by refusing to sign it and the League of Nations by refusing to join it, and if she could not refrain from putting up barriers against the exchange of goods and services, she could at least set the ball of international trade rolling by lending money, in the old-fashioned form of long-term investments, to any countries that wanted it.

And she did so, and sometimes, apparently, to countries that did not. At least it is recorded by Dr. Shaffner, of Harvard, in his book entitled *The Problem of Investment*, that some of Germany's outstanding citizens had complained that they were 'virtually implored by American bankers to accept loans'. According to the same authority 'the investment houses virtually fell over one another in their scramble for new issues to offer to the public'.

Accounting for the sudden outburst of foreign security flotations in the United States after the war, Dr. Shaffner calls attention to the enormous sums made out of them by the investment bankers. 'It has been estimated', he writes, 'that bankers' commissions on the sale of $15,000 millions of foreign issues since

1914 would amount to $750 millions (or £150 millions), calculated on a basis of 5 per cent. commission. From the facts adduced, however, this is clearly an understatement. The cost to the average foreign borrower on the German loans made by the United States during the three years following 1924 has been calculated to be an annual charge of 10 per cent. on the basis of net proceeds received. A good part of the differences ultimately found its way into the hands of the issuing bankers, in addition to their formal commissions. . . . These large banker profits made it extremely worth while to "accept" such loans and to use all high-pressure methods necessary to distribute them to the American public.'

Such high-pressure methods seem to have included a good deal of mendacity in prospectuses that often 'misstated and exaggerated the population of the issuing governmental unit, its wealth, its financial record in the past, its assets, liabilities, and finally the purpose to which the proceeds of the loan were to be put. Similar remarks apply to corporate loans as well'.

(In America, a corporation is not, as here, a municipality, but a company. So corporate loans and corporation issues mean company financing, not money lent to public bodies.)

In fact, Dr. Shaffner's whole chapter on the Rise and Fall of Foreign Investment is an astonishing record of greed, mendacity and corruption, very similar to the nastinesses that left such a bad smell in the early days of foreign issuing in London, and doubtless in other centres. Just one example will

suffice to show that we are by no means in a position to heave rocks at this kind of sinner: 'Moreover', wrote Ellis Powell in his *Evolution of the Money Market*, 'the amounts received by borrowers were in some cases almost incredibly small in comparison with the nominal aggregate of the issue. The Santa Domingo Loan of July, 1869, was for £757,700, of which, according to the report' (of the Select Committee of the House of Commons on Loans to Foreign States) 'the amount actually received by the Government was probably only £38,000 and certainly not more than £50,000.'

But in the United States the effect of such evil deeds was much more serious, for several reasons. Although it was shown that they were not countenanced, still less done, by the front-rank banking houses, disclosures made in the course of public inquiry showed that some firms had been concerned with them that had hitherto been regarded as models of prudence and integrity. Also, the scale on which they were conducted was, naturally in the circumstances, much greater than when foreign lending was making nasty infantile messes in London and Paris. And the consequent losses and disillusionments affected a much wider public, the disillusionment being all the more devastating because the public had believed that it was doing good work for humanity by taking up the loans.

For, together with the eagerness of the investment bankers in search of bloated profits, Dr. Shaffner finds two factors to account for the readiness of the American public to enter on the path of foreign investment: 'One

of them arose out of a widespread desire to help Europe recover from the effects of the war. The United States had played a part in the war which, it was felt, was chivalrous and unselfish, to a degree, as compared at least with the motives of the other combatants. After the war was over the impression arose that, particularly in view of the small extent of American losses in human terms and of her comparatively immense resources, she should continue in her chivalrous rôle by lending material aid to the recovery of her allies and in assisting a defeated enemy in getting on its feet. This was in part the spirit which later actuated a great many American investors – some of them totally ignorant even of the location of the countries whose securities were being offered – to perform their duty by purchasing foreign securities. It appears also that America's dramatic entry and victorious participation in the first war of world magnitude produced a new birth of international consciousness on the part of the American people, who immediately became the greatest tourist nation on earth and who, in a spirit of what might be termed "sublimated imperialism", proceeded to purchase, in the form of securities, what appeared to be a claim on property located in various parts of the world.'

Out of this characteristically American mixture of lofty idealism and sordid greed, followed by disillusionment and disgust, has arisen much of the discredit which has, sometimes very unfairly, blackened the banking and business leaders in the eyes of the public and given Mr. Roosevelt so much enthusiastic support in his determination to clean out the business stable.

This point is highly relevant to our inquiry; for if his efforts fail, either owing to his hasty and half-considered measures or to the obstinate kickings of the inhabitants of the stable, hopes of the Consumers' Paradise, to be won through American influence and example, do not look too rosy.

For the moment, however, we are concerned, not with the after-effects of America's foreign lending, but with its large extent and with the stimulating effect that it had, while it continued, on world trade and the prosperity of other nations.

Between 1924 and 1930, as shown by a table adapted by Dr. Shaffner from various issues of the *Statistical Abstract of the United States*, foreign securities floated there amounted to $9,117 millions, or £1,823 millions – at the rate of about £260 millions a year. During the same period, Britain is estimated to have lent abroad at an average rate of about £105 millions a year. With this plentiful stream of loan funds, poured out all over the world by the two chief creditor countries, it is less surprising to find that the total of world trade rose in 1929 to well over its figure for 1913. For by this flow, backward and impoverished countries were enabled to buy, year by year, £360 millions' worth of goods and services that they could not have taken without its help.

Other influences, of course, were at work. Mr. Loveday, in his book on *Britain and World Trade*, tells us that 'the year 1925 marks almost the end of the period during which Europe was devoting her major efforts to construction or reconstruction' and that 'it was followed by almost four years of extraordinarily

rapid, if not uniform, progress and development'. The extraordinary increase in the production of wealth, which he regards as the most important characteristic of this period, he considers to have been rendered possible by the reorganization and re-equipment of industry, the gradual correction of mistakes made when currencies were inflated, and 'the steady percolation of capital into those areas where lack of capital had most seriously arrested progress. The pressure to reorganize was felt most by those countries whose economy had been most profoundly affected by the war, and as the necessary capital became available the task was undertaken and brought its own reward'.

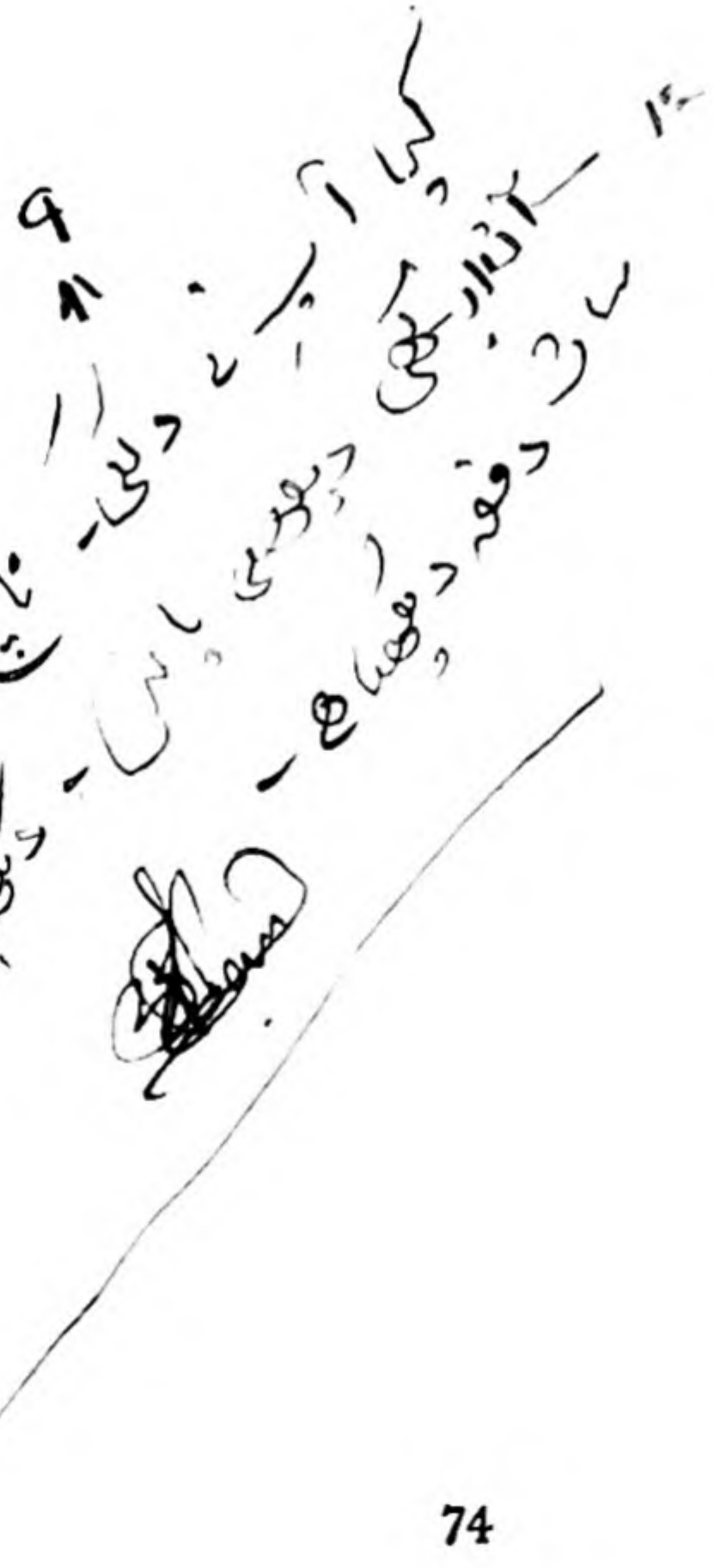
Mr. Loveday was in those days head of the Economic Intelligence Service of the League of Nations Secretariat; and the testimony of this very able and exceptionally well-informed observer as to the value of the percolation of capital as a general restorative confirms the opinions stated in the earlier pages of this chapter.

To Britain, with her business outfit so largely dependent on overseas trade, the general progress marked during those years in which America was lending most freely was of the highest importance; though, as already noted on p. 60, she did not get her full share of its benefits. She did, however, get a good deal more than her full share of the world-wide disasters which followed the sudden drying-up of the outward flow of American capital. The suddenness with which this tap was turned off was, perhaps, the severest blow which America's mercurial temperament has inflicted

on herself and on all who trade with her or with one another.

We have seen above the pace at which the tap was running from 1924 to 1930. It subsided into a trickle of £54 millions in 1931 and about £13 millions, most of which went to Canada, in 1932 and 1933.

The causes of this sensational collapse and its effects on debtors and producers all over the world are the subject of our next chapter.



CHAPTER V

THE 'BIG BULL MARKET'

Sentiment and Speculation in America – Holding Companies – Writing-up Assets – Banks and Security Affiliates – Abuses of the System – Discredit of Capitalism – Benefits of the Stock-Market Boom – Distributed Purchasing Power – In the United States Abroad – By means of Speculative Profits – Assisted by Monetary Expansion – All Classes Affected – The Boom's Imaginative Basis – A Paler British Precedent – The Inevitable End.

LOOKING back once more at the conditions under which world trade and general prosperity had grown in the pre-war and after-war periods, we find that in the first they were marked by (1) peace, (2) freer trade, with complete freedom of trade in the market of Britain, the chief creditor country, (3) the gold standard, worked, more or less completely, in all the chief trading countries, and (4) a well-supplied international capital market, supplying long-term credits to the new and growing countries.

In the second period these conditions had been changed for the worse. (1) There was nominal peace with a growling undertone of bitterness and apprehension; (2) new trade barriers had been created on an enormous scale, old ones had been raised in many countries, and the United States, now the creditor of all the world, had maintained its already very obstructive tariff. On the other hand, (3) the gold

standard had been restored in and after 1925, the year which marked the beginning of the after-war recovery's most successful progress; and (4) the international capital market was plentifully supplied with funds by America and Britain.

We also find that, in spite of uneasy peace and the growth of trade barriers, the other factors – stability in rates of exchange secured by the gold standard and the free supply of long-term credits to countries that wanted to trade on tick – enabled world trade to beat its pre-war record by a margin that may be called substantial, though considerably below the rate of growth that it would, under more favourable conditions, have achieved.

In other words, in spite of what Mr. Dennis Robertson, in an article on the Future of International Trade in the *Economic Journal* of March, 1938, has called 'the apparent determination of Governments, egged on by their citizens (for it is no use pretending it is all the fault of the Governments) to strangle international trade', international trade obstinately refused to be strangled. The success with which it did so, is a hopeful proof of the good sense of business-minded man, who insists on dealing with his neighbours across the frontier, in spite of all obstacles raised by governments and by interested parties.

For the moment, however, we are concerned with the reasons which produced the sensational collapse of the prosperity of the seven years of growth. This collapse was all the more devastating in its effects, because it belied a belief, held by many hopeful spirits, that a new era of progress had begun. Henceforward, they

hoped, trade reactions were going to be partial and slight, if indeed they happened at all, and mankind was going to be so busy and successful in improving its material lot that it would leave off quarrelling about the unimportant trifles that had led to the wars of the past, and march forward shoulder to shoulder towards a higher standard of life for all and the development of a nobler international spirit.

Such beliefs had been cherished with especial fervour by the people of the United States. They were pleasantly in tune with the conviction, noted in our last chapter, of their chivalrous action in coming into the war, and the success with which they had finished it, and also, perhaps, with the less elevating sentiments shown in the handling of their excursion into foreign lending. And so belief in the beginning of an era of unlimited and unbroken prosperity stirred the Americans into an outburst of speculative activity such as had never been since the time of the South Sea Bubble in England, and much more widespread than it, owing to the broader distribution of wealth, information and speculative machinery and infection.

Those who wish to study the details of this amazing gamble and its subsequent disillusionments, and the frauds which were practised in the course of it on the credulity of the public, will find the whole story plentifully described by American writers. We have already noted some of the uglinesses recorded by Dr. Shaffner as attached to the issue of foreign loans. The same writer gives some striking information concerning the amazing practices followed in the development of internal financial exuberance.

Prominent among them was the growth and abuse of the system of holding companies, which he describes as corporations 'created for the primary purpose of holding stock in a group of allied or diverse enterprises to effect a co-ordination of their various activities'. Within limits and properly conducted, the system has obvious advantages, but the doors that it opens to abuse are wide and tempting. We have plenty of holding companies in Britain, and their performances need careful watching by such authorities as are supposed to safeguard the interests of the investing and also the consuming public.

In America the opportunities that they offered were seized and used with all the exaggerated energy that the exhilarating climate of the country encourages. 'In the sophisticated holding-company structure of the present day', says Dr. Shaffner, in his chapter on Separation of Security Ownership and Control, 'it is not at all uncommon to find holding companies piled upon holding company until there are, in some instances, as many as eight or nine of these legal creatures imposed between the top holding company and its operating units.' Whether the consequent divorce of control from ownership is as serious a matter as Dr. Shaffner seems to think is a question which might be discussed at length if we were concerned with problems of company reform. In Britain the control of company shareholders over their property is practically exercised, as a rule, only when the company is on or near the scrap-heap; and this is evidently as it should be, for if shareholders constantly interfered in the management of any business concern, the results would

certainly be disastrous both for them and for it.

Nevertheless, the existence of possible control, if shareholders are convinced that management is inefficient, is a useful safeguard; and the holding company system's development in America was, as Dr. Shaffner tells us, accompanied by 'numerous abuses not necessarily inherent in that form of organization'. Chief among them he mentions as a 'fairly common feature of holding-company management' the practice of writing up the assets – in other words, of putting a fictitious and inflated value, for balance-sheet purposes, on the properties possessed by the company or by the subsidiaries enfolded in its embrace. 'The Federal Trade Commission', says our authority, 'has revealed numerous instances of "write-ups", but reference to one or two will suffice. The Appalachian Electric Power Company, upon acquiring a number of small power companies having a valuation of $72,600,000, wrote up their value, literally overnight, by more than 91 per cent. to $139,000,000. The Electric Light and Power Corporation wrote into its books at its organization a value of $33,373,000 to represent assets which its predecessor company, the Utah Securities Corporation, had carried at $3,854,000. When the New England Power Association acquired the New England Company in 1926, it added to assets of $14,000,000 a write-up of $17,000,000 more, and similarly the Commission examiners uncovered a write-up of about $400 per share in the capital of the Carolina Power and Light Company.' As always, American humour provided a comment on holding companies almost pleasant

enough to justify any sins that they may have committed – Mr. Will Rogers described them as 'the feller you hand the swag to when the policeman's looking'.

Such revelations go far to account for the distrust afterwards felt by the American public in those who had been responsible for its financial leadership. And there was still worse behind. For the subsequent investigations into the performances that distinguished this dismal period showed that some of the National Banks, through what were called 'security affiliates', had played a prominent part in landing the public with questionable investments. (Since the terms used in the following quotation may puzzle readers not versed in these matters, it should perhaps be explained that the National Banks, being forbidden by their charters to float securities, had formed sub-companies, usually with a name very similar to that of the bank, which acted as wholesale security merchants, as retail dealers in securities with a corps of salesmen, and as holding companies 'carrying blocks of securities for control or otherwise, which the bank could not or would not list among its own investments', and fulfilled other purposes, including acting as a 'medium for supporting the market for the bank's own stock'.)

'For example,' says Dr. Shaffner, 'there was the operation described by the phrase "bailing out the bank". . . . The process of "bailing out" arises from the fact that a commercial bank which has a security affiliate attached to it can use it as a medium for liquidating its slow and doubtful loans. This it can

do by inducing the companies indebted to it to issue new stock to be sold by the affiliate to its clients, the proceeds to be used in paying off the slow loans to the bank. Thus in effect, the public takes the place of the bank as the maker of a questionable loan, and the security affiliate gets the business and the underwriting fee.'

Many lurid examples might be given of the unfortunate results of the working of this system – one self-styled 'shorn lamb' who had been advised by a prominent bank affiliate to convert £45,000 worth of American Government bonds into securities sponsored by it as being more desirable, found himself at the end of the affair reduced from the position of comfortable retirement to 'clerking for the Poor Board'. But there is no need to dwell further on such happenings, which took place at a time when all the American public and a considerable number of its financial leaders seem to have been in a state of exuberance which amounted to blind intoxication.

A Banking Act of 1933 has done, apparently, all that the law can do to end such practices, and we may be sure that the fine sense of business honour with which the best American business men are furnished, will, assisted by recent experiences and the regulations that have now been imposed, raise the standard of decency in the American investment market above any possibility of their repetition.

But these things had to be mentioned; in the first place because they account for so much of the enthusiasm which has supported Mr. Roosevelt's measures of reform, which often seem so drastically violent to

outside observers, but above all because they are very relevant to the question of converting consumers' needs into effective demands. Critics of capitalism tell us that it has broken down, and that it is no use to look for general prosperity until it has been replaced by some system of more or less complete public control. The terrific fluctuations in prosperity that have marked the after-war period in America are a strong argument in the hands of these critics; for there capitalism was given its head and left to do its best and its worst with a freedom that it has nowhere else enjoyed. It is thus necessary for any candid inquirer into methods of securing prosperity, to show the worst that can be said about the performances of capitalism, as a means for securing a general advance in the standard of comfort. If it is going to subject the business world to a series of rapid advances in activity, accompanied by mad speculation and an unsavoury crop of frauds and followed by cataclysmic plunges into depression, unemployment and bankruptcies, capitalism is evidently doomed.

While it lasted, however, the spell of optimism that culminated in 1929 did certainly do something towards showing the way to prosperity. We have seen that one of its accompaniments was a great outpouring of American capital abroad, which lent (and in many cases finally gave, because the borrowers defaulted) purchasing power to countries that needed it. And in the domestic market it stimulated production and consumption to an extent that swelled profits and wages in a manner that naturally persuaded those who benefited by it that all business problems were

solved. Moreover, it brought out clearly the truth of a great principle, a firm grasp of which may yet prove to be the solution, or an important item in the solution, of the main problem that we are considering, namely the diffusion of a greatly increased output of wealth among those classes of the community which have hitherto fared worst in the process of sharing out the products of industry and commerce.

For mass production was its basis, and it soon became evident that mass production must have mass consumption to take its output. Mr. Henry Ford's *To-day and To-morrow* was published in 1926. In it he says: 'The real progress of our company dates from 1914, when we raised the minimum wage from somewhat more than two dollars to a flat five dollars' (£1) 'a day, for then we increased the buying power of our own people, and they increased the buying power of other people, and so on and so on. It is this thought of enlarging buying power by paying high wages and selling at low prices which is behind the prosperity of this country. It is the fundamental motive of our company. We call it the "wage motive".'

This combination, of high wages with low prices, worked so well for its exponents that they had some reason for claiming prosperity as not yet quite perfected, but ready for the finishing touches. Mr. F. L. Allen, in his book, *Only Yesterday, an Informal History of the 1920's in America*, gives an account of his country's sentiment during this period which lays stress, with cunning literary craft, on its exaggerations and absurdities. In the course of it he quotes from Mr. Hoover's speech in acceptance of the Presidency: 'One of the

oldest and perhaps noblest of human aspirations has been the abolition of poverty. . . . We in America today are nearer to the final triumph over poverty than ever before in the history of any land. The poorhouse is vanishing from among us. We have not yet reached the goal, but, given a chance to go forward with the policies of the last eight years, we shall soon, with the help of God, be in sight of the day when poverty will be banished from this nation.'

In the meantime, growing consumption in America was not only marking prosperity for herself, but increasing it in other countries, owing to the demand that it implied for their products. It is true, as we have seen, that she maintained in the days of her creditorship the high tariff wall for which there had been some excuse when she was a debtor country; but it was obstructive, only or chiefly, to the entry of manufactured goods, and hardly affected the inflow of raw materials and foodstuffs, especially such articles as copper, lead, tin, spelter, rubber and tea. Of copper America is herself a large producer, but her consumption, when active, naturally affects the price received for it by producers in other countries. America's optimism thus conferred a double benefit on the rest of the impoverished world. It produced that orgy of foreign lending, and also a vigorous increase in demand for what are called 'primary products' – the output of the farm and of the mine. So it put plenty of money, borrowed and earned, into the pockets of the primary producing countries, which are in most cases the younger communities, such as our Dominions and Colonies and the South American Republics and the

more backward countries of Central Europe; and so enabled them to buy the manufactured goods of the old-established industrial nations. Further, America's foreign lending fever helped Germany to struggle for a time with the difficulties of Reparations, and, finally, her development, already noted for us by Dr. Shaffner, into 'the greatest tourist nation on earth' poured a shower of dollars into Canada and Europe and wherever the free-handed American traveller went.

As a healing after-war process, America's outburst was thus of the highest value to all the world, a fact which we are too apt to forget when we rub the wounds which its collapse inflicted on us.

At its best it had its weaknesses, which have been plentifully pointed out by many American writers – Mr. Stuart Chase in his *Prosperity, Fact or Myth?* and others. It was partial both in area and in social distribution. The manufacturers of New England suffered from the competition of new industries fostered by cheap labour in the South. And, though it was a halcyon period for the workers in the most prosperous industries, it brought less benefit to the 'white-collar' clerical class and to the teachers and professors; and, above all, it brought comparatively little advantage to the farmers, the growers of cotton and cereals, who had to sell their crops at or least such of them as were exported at the world price. Like the primary producers elsewhere, they were helped by the boom to sell their output, but they were not taking part in the soaring prosperity of the manual workers, for instance, in the automobile industry, which was following the the example of Mr. Ford with his 'wage motive'.

But its essential weakness – the 'worm i' the bud' that fed on its damask cheek and finally ate it up – was the fact that, especially in its later years, it was paid for out of the profits of speculation, in real estate – houses and land – and above all in the stock markets.

During the years from 1921 to 1929 the Standard Statistics index of common stocks listed in New York rose by 365 per cent.; and perhaps even more fantastic advances were scored by real property prices in some spots most highly favoured; and the extent to which the whole nation devoted itself to the game of 'playing the market' is almost incredible. The story of the Big Bull Market gives full scope to Mr. Allen's descriptive skill in his *Only Yesterday*, and only a rather long extract can do full justice to it:

'Branch offices of the big Wall Street houses' (stock-brokers, that is) 'blossomed in every city and in numerous suburban villages. . . . The rich man's chauffeur drove with his ears laid back to catch the news of an impending move in Bethlehem Steel; he held fifty shares himself on a twenty-point margin. The window-cleaner at the broker's office paused to watch the ticker, for he was thinking of converting his laboriously acquired savings into a few shares of Simmons. Edwin Lefevre told of a broker's valet who had made nearly a quarter of a million in the market, of a trained nurse who cleaned up thirty thousand following the tips given her by grateful patients, and of a Wyoming cattleman, thirty miles from the nearest railroad, who bought or sold a thousand shares a day, getting his market returns by radio and telephoning

his orders to the nearest large town to be transmitted to New York by telegram', and so on. 'Thousands speculated and won, too, without the slightest knowledge of the nature of the company upon whose fortunes they were relying, like the people who bought Seaboard Air Line' (a railroad) 'under the impression that it was an aviation stock. Grocers, motormen, plumbers, seamstresses and speak-easy waiters were in the market. Even the rebellious intellectuals were there: loudly as they might lament the depressing effects of standardization and mass production upon American life, they found themselves quite ready to reap the fruits thereof. Literary editors whose hopes were wrapped round about American Cyanamid B lunched with poets who swore by Cities Services. . . . The Big Bull Market had become a national mania.'

In this way, millions of people were making profits out of a practically continuous rise in share prices, for the space of six or seven years. The new monetary system of the United States, established just in time at the beginning of the war, was able to provide the sinews of speculation with an increase of more than 13,000 millions of dollars (£2,600 millions) in bank deposits. These profits, lavishly spent by their owners while they were being provided by the continually rising market, kept consumption and production rolling as they had never rolled before.

But the weakness of a rising stock market, as a distributor of purchasing power, lies in the fact that it cannot last indefinitely. You begin by buying stocks because they pay a good dividend at the price; then

you buy, and with some reason, because they are not only paying a good dividend, but also showing a handsome margin of profit which is being put back into the business; then you buy – and here you are getting into dangerous waters – in the expectation of still better dividends and earnings next year; and then you go plunging into possibilities by buying on expectations of five or ten years hence, when prosperity, increasing by geometrical progression, will have lifted the roof off the whole stock-market edifice.

Our comparatively sober British public had painted a similar picture, on a much smaller scale and in much paler colours, of the prospects of South African land companies during the Kaffir boom of the nineties of last century. Intoxicated, as the Americans were by their new supremacy, by the consciousness of Imperial might demonstrated at Queen Victoria's Diamond Jubilee, and flown with the heady wine poured out for us by our great Jingo Tyrtaeus, we put fancy prices on the income that we were going to earn in years to come, by bearing what we were proud to be told was the 'white man's burden'. Serious investors put away the shares of the Chartered Company of British South Africa, which they bought at prices ranging up to £9, for the benefit of their descendants. 'Chartered' never paid any dividend until 1924, and have lately been in the neighbourhood of 30*s*.

When once you have soared into these regions of fancy and are capitalizing figments of the imagination, collapse becomes imminent; because any reaction in prices obliges the speculative camp-followers,

who have been backing the movement on borrowed money, to ask themselves whether it may not be time to secure their profits. Why a torrent of selling orders suddenly turned boom into collapse in October, 1929, will, says Mr. Allen, 'probably never be known. But it seems probable that the principal cause . . . was the dumping on the market of hundreds of thousands of shares of stock held in the name of miserable traders whose margins were exhausted or about to be exhausted. The gigantic edifice of prices was honeycombed with speculative credit and was now breaking under its own weight'.

This collapse had resounding effects all over the world. It stopped altogether the outward flow of American capital, already somewhat attenuated owing to the more alluring attractions of the domestic gamble; and by cutting off the speculative profits which had been swelling America's purchasing power it knocked flat the market for the commodities of which America was the principal buyer; and so reduced the purchasing power of all the countries to which she had lent, from which she had bought, and in which her tourists had been spending in shops, hotels and railway and steamship booking offices.

And in the meantime productive power, stimulated by war demands, had been growing still further; with the result that the cutting off of all this purchasing power caused a fall in commodity prices that brought primary producers to, and often over, the verge of bankruptcy, and ushered in an era of default and difficulty, soon to be complicated and embittered by the revival, in an acute form, of the miserable political

quarrels of Europe. But the period of the Great Bull Market had shown that high wages, big profits and low prices of manufactured goods work for prosperity; and also that speculative gains are the wrong way of distributing the necessary purchasing power.

CHAPTER VI

COLLAPSE AND CONSEQUENCES

Collapse showed Profitable Prices to Producers Essential to Prosperity – Subsequent Helpful Happenings – Fall of Gold Standard – Possibility of Freer Trade – But Epidemic of Defaults – Wars and Armaments Race – Severity of Price Fall – Ascribed by Professor Todd to American Crash – Sets up Vicious Circle – Drives Debtors to Bankruptcy – And Debtor Countries to Default – America helps England with Cheap Money – So Causes Final Effort of Bull Market? – Reasons for Doubting this View – England's Return to Old Gold Parity – Criticized by Professor Robbins – On Questionable Grounds – A Matter of Common Honesty – Honesty Essential to Capitalism.

SINCE the false bottom was knocked out of the Big Bull Market in Wall Street, many things have happened which throw light on the problem of future prosperity. In the first place, the collapse made it clear that prices of primary products, profitable to those who produce them and not too low in relation to the prices they have to pay for manufactured goods, are essential if world trade is to be kept moving and growing. This is one of the items in one of Mr. Roosevelt's many programmes, and if he can achieve it he will have gone a long way towards solving our problem for us. In the second, it has shown how little can be done towards securing this object unless business in America, the chief consumer of so many of the most important primary products, can be freed from the doubts and

fears that have reduced it, as he has said, to a condition of jitters.

Until these two needs have been met, full general prosperity is not on the horizon. But certain things have happened which are helpful in the right direction. Chief among them is the fall of the gold standard. The drawbacks connected with its working have already been mentioned in Chapter II (pp. 43 and 45). Against them we can set the advantage given by the stable rates of exchange that it secured; and it is open to argument whether this benefit was not greater than the drawbacks. Since the fall of the gold standard, however, fairly stable exchanges have in fact been maintained, except in times of acute political apprehension over a wide area, including the United States, the British Empire and several countries which have joined the stabilizing group.

But the most notable effect of the fall of the pound was the added value that was thus given to gold. An ounce of gold, instead of being worth 85*s*. in London, now fetches prices somewhere in the neighbourhood of 140*s*. and upwards. In other words, the depreciation of the pound in terms of gold has made gold worth more in terms of pounds, and also of dollars (since, as we shall see later, America deliberately devalued the dollar to a roughly similar extent) and of the currencies of all the countries included in what is called the 'sterling area'. So that immense masses of low-grade gold-bearing ores have now become profitable to work. With the result that scarcity of money, and the panics that in old times were so often caused by it, need no longer be feared. Though, as American

experience has shown, there are plenty of other ways of breeding panic, if people are so minded.

There is also, perhaps, some sign of reaction in the direction of freer trade; and the fact that freer trade is now championed by Mr. Cordell Hull, a leading American statesman, and furthered, we may hope, by an Anglo-American Trade Agreement, signed in November, 1938, would once have been considered a feature of outstanding significance. In fact, all-round protection has argued more strongly against itself through all the restraints that it has imposed, than all the theoretical doctrines concerning the desirability of the international division of labour. Nevertheless, there can be no hope of real free trade until the fear of war has been well and truly abolished.

On the other side of the account, against these faintly favourable symptoms, we have to set the epidemic of default, in which even Britain (while saying, like Mrs. Cluppins, 'in a majestic manner', that she would 'scorn the haction') has joined, making any future revival of the international capital market on its old scale difficult if not impossible, and weakening the sanctity of contract – in other words, honesty – which is the basis of sound business. And, of course, there have been wars and rumours of wars, so intense and crippling to business that it almost looks as if the sabre-rattlers are beginning to see that sabre-rattling is too dear a luxury; and an armaments race, in which what Signor Mussolini has happily described as the 'demo-plutocratic' Powers seem likely to stay the course best.

These things have to be examined and explained,

not by any means with any intention of giving a history of this recent disgusting period, but merely to help us to grope our way towards a state of things in which a better life can be secured for those who have hitherto had the rough end of the bargain.

Going back first to the question of commodity prices, the interesting features of the after-war recovery was the fact that it was achieved during a time in which wholesale commodities were declining in price. This prosperity with falling prices was, as we saw on p. 45, contrary to experience; for it more often happens that business confidence has to be stimulated by the expectation of larger profits that rising prices usually bring with them. Dwindling commodity prices, as we saw in our last chapter, were even on this occasion one of the reasons why America's after-war prosperity was partial, not being shared in by certain classes of primary producers; and they also, probably, accounted for the slowness of recovery in world trade, remarkable as it was in the face of all the barriers opposed to it by the newly created nations. That their effect was not more deadly was due, we may suppose, to the very slight fall that they showed in America – where, in fact, prices were rising in the early part of the period – to the buoyant confidence with which, on other grounds than the price level, American business so gaily clothed itself, and also to the efforts of Mr. Ford and other exponents of mass production, in cheapening the prices of manufactured goods. If the farmers got less for their crops, they paid less for their automobiles and tractors; and so equilibrium, that blessed

word so rightly dear to economists, was more or less maintained.

But when collapse came in 1929, and America was no longer lending and spending abroad the profits of the Big Bull Market, the full effect of increased production, and especially of a bumper wheat crop, which had been piling up the stocks of commodities, made itself felt in markets which had been robbed of their most important support. Professor J. A. Todd, an expert on cotton, who published in 1931 an interesting little book on *The Fall of Prices*, points this moral thus:

'There is no doubt at all that the direct effect of the Wall Street crash has been a serious restriction of consumption of all kinds in America. The writer could very easily give a detailed illustration of this from the position in regard to cotton, but the result may perhaps be accepted that the consumption during the summer of 1930 has not been much more than half what it was a year ago. There is very little doubt that the consumption of other commodities was affected in the same way. That was inevitable because, apart from the effects of the slump in speculative losses and the effects on all her great industrial centres, America herself is a very large producer of these raw materials, and these producers are very hard hit by the fall of prices. This particular effect is unfortunately not confined to America. The producers of raw materials all over the world have suffered equally by the fall of prices of their commodities, with the result that their purchasing power is affected and the thing becomes a vicious circle. The trouble, however, does not end here. One

of the worst effects of a period of falling prices is that it breeds lack of confidence in prices themselves. . . . The one thing that tends to check buying, and therefore to prevent the recovery of prices, is the fear that they may go lower still. This lack of confidence in prices therefore becomes an argument in a circle. No one will buy because they are afraid that prices will go lower still, and just because no one is buying prices do fall farther.'

These facts, stated by a practical student of an important market, have been a very prominent feature in our recent business history, and have to be understood clearly by anyone who is groping after improvement in business conditions.

Economists used to tell us that a fall in price brings in buyers: 'If it is required to induce an individual or a number of individuals to buy more of any commodity', wrote the late Professor Cannan, 'the shortest way of accomplishing that end is usually to lower the price at which it is offered for sale.' Mr. Hubert Henderson, in his book on *Supply and Demand*, is more cautious, saying that 'a fall in prices tends, sooner or later, to increase demand'. Professor Todd had made it clear for us, and his doctrine is amply confirmed by recent experience, that a fall in prices is also, and especially in times when business nerves are jumpy, likely to frighten buyers off and lead to a further fall.

Moreover, the vicious circle of which he has told us means that a fall in any article is like to produce a fall in others. When the primary producers have their purchasing power reduced because, for example, the

farmers are getting less for their wheat and cotton, their demand for farming machinery, clothes, radio sets and all the other necessaries and comforts that they consume when they are prospering, inevitably falls off. This affects the order books of the secondary or industrial producers, causing unemployment in the manufacturing centres and a reduction in the demand for the goods usually consumed by the industrial workers, and also reducing the profits of industry and so the income of shareholders and so their demand for the articles that they buy when they can afford them. The business machine is a terribly complicated and delicate instrument. If you touch it anywhere it feels it everywhere; and it is very doubtful whether it can stand a continuance of shocks of the kind that have lately been inflicted on it.

One such shock was the fall in prices that followed, and, in Professor Todd's obviously well-grounded opinion, was largely caused by the crash in Wall Street in 1929. It has already been stated that in the years before the crash there had been a slight and steady decline. From Sir Walter Layton and Mr. G. Crowther's *Study of Prices* we find that the wholesale price index averaged 146 of the 1913 level in 1922 but only 135 in 1928; but, nevertheless, 'by contrast with the periods of rapid and extensive changes which both preceded and followed these seven years they appear as an oasis of stability. . . . The same description cannot, however, by any stretch of imagination be applied to the four years following 1929. In England the wholesale price index number fell from an average figure of 127 in 1929 to a low point of 81 in June, 1932, while in

the United States and in nearly every other country of the world the decline of prices was at least as severe'. In the light of what Professor Todd has told us about the effect of falling prices, this terrific decline, from an average of 146 in 1922 to 135 in 1928 and then a plunge to 81 in 1932, is a more than sufficient explanation of the appalling crisis that shook the whole world's business machine during this period. The marvel is that it survived the shock.

Its effects were all the more tragical, because during the spell of hope and confidence, short-lived as it was, that followed the war many primary producers had bought farms, and many other optimistic folk had bought or set up little businesses on borrowed money, or on money saved or earned through the war, and had paid prices for their outfit and equipment based on the expectation that the produce or service that they were going to provide would fetch the prices then current, or thereabouts. All of us must know cases of demobilized officers and men who invested their service bonuses in poultry farms or shops or businesses, often borrowing a little more to help them to make a good start. Then came the depression and the fall in prices, and they found themselves cleaned out, and lucky if they were not saddled with a debt, the interest on which could not be covered by the earnings of their enterprise, with prices gone to pieces and demand shrivelled like a burnt scroll and all for reasons that they were quite unable to understand. They had done their best, and some incomprehensible force had reduced them to bankruptcy.

And in the meantime, the revenues of the countries in which primary production is most important inevitably suffered from the impoverishment of their citizens. In whatever way revenue may be assessed and collected, it must be reduced if the taxpayers have smaller incomes to be taxed directly or to be spent on taxable articles. And so the ill-considered eagerness with which America had lent abroad, 'virtually imploring' people in other countries to accept loans, as we saw on p. 68, came home to roost, in the form of a flock of defaults. For soundly secured obligations could hardly be created by a condition of loan-mongering competition in which, to quote Dr. Shaffner once more, 'the lender sought the borrower and encouraged him to borrow; in which the representatives of several American houses would frequently be found competing for the same loans in some foreign capital; and in which large payments bearing a close resemblance to bribery were paid to officials and go-betweens in order to secure the business for some particular house'. It is not surprising to find another Ph.D. of Harvard, Dr. Lothrop Stoddard, referring in his *Europe and Our Money*, published in 1932, to 'those billions of capital locked up in depreciated foreign bonds, many of them frozen solid by defaults and moratoriums which are spreading from Germany to Hungary, to South America and goodness knows where else to-morrow'.

But it is more than high time to cease quoting American strictures on America's mistakes, as if they were the only cause of the mischief, instead of only being the most important, owing to America's wealth and consuming power. It is pleasanter to remind

ourselves that, in the opinion of some experts, the last and maddest phase in the Big Bull Market was caused by an attempt by the American monetary authorities to relieve the position in Britain and in Europe by making money cheap on the other side of the Atlantic, and so promoting a return flow of some of the gold that had been pouring into the United States. In the spring of 1927, as recorded by Professor Robbins in his masterly work on *The Great Depression*, there were signs of moderate depression in America and at the same time events in England had produced a position of unusual difficulty and uncertainty, in fact of 'great danger. International assistance was sought. And in the summer of that year, partly in order to help us, partly in order to ease the domestic position, the authorities of the Federal Reserve system took the momentous step of forcing a régime of cheap money. A vigorous policy of purchasing securities was initiated'.

This view is supported by American authorities, including a member of the Federal Reserve Board in a statement before a Senate Committee on Banking and Currency. From it, Professor Robbins draws the conclusion that 'in the last analysis, it was deliberate co-operation between central bankers, deliberate "reflation" on the part of the Federal Reserve authorities, which produced the worst phase of this stupendous fluctuation. Far from showing the indifference to prevalent trends of opinion, of which they have so often been accused, it seems that they had learnt the lesson only too well. It was not old-fashioned practice but new-fashioned theory which was responsible for the excesses of the American disaster'.

In spite of the high authority of the holders of this view, it is possible to feel some scepticism concerning the extent of the effect of the Federal Reserve Board's cheap money policy in causing this final outburst of the Bull Market. Economists and bankers are, it may be suggested, alike often apt to attach too much importance to monetary influence as a stimulus to speculation and business. If the American public and its financial leaders had not been in the right frame of mind for another flutter on an enormous scale, the incentive of cheap money would have been as powerless to stir them to it, as it afterwards proved to be, on several occasions during the Roosevelt régime, to cause a revival of production and business.

According to theory, speculators are more likely to rush into the market and buy if they are able to borrow money for carrying their commitments at 2 or 3 per cent. per annum (for example) than if they have to pay 4 or 5 per cent. In fact, when prices in the stock markets are rocketing upwards at the rate of five or ten points a day, or when they have lately been doing so and speculators believe that they are just going to start another firework display, the price of borrowed money is, in their eyes, neither here nor there. What is 1 or 2 per cent. per annum, when there is a chance of a ten-point rise in a week? This was clearly shown at a later stage of the boom, when rates for money ranging up to 12 and 15 per cent. were paid, without checking the eagerness of the gamblers. The real cause both of the Wall Street boom and of the extraordinary staying power with which it spurted after pauses for breath, is more likely to be found, by those

acquainted with the practical facts of business, in the abounding confidence of the American public in its own and its country's destiny, and in the methods, genuine and unscrupulous, sincere and fraudulent, employed by the financiers and stockbrokers to encourage and exploit this confidence.

On the other hand, there can be no doubt about the other part of the statement, the intention, namely, of the American authorities to ease our position by cheapening money and reverse the inflow of gold. So now we have to look at home, and see why we were in so uncomfortable a position that central bank co-operation had to be called upon to assist us, and did so with results alleged to have been so disastrous.

It is generally believed by the many critics of our monetary policy during that period, that we had got ourselves into difficulties by going back to the gold standard at the old pre-war parity. Under the old gold standard the gold equivalent of the pound – the amount of gold, that is, into which anyone who had pounds could exchange them at the Bank of England – was equal to the gold equivalent of 4·86 odd dollars. Owing to the drain of war on our resources, and the faulty war finance which had paid for so much of it by the simple expedient of printing paper pounds, the pound had been depreciated. To the extent of the depreciation, the buying power of the pound was less than that of the dollar. Putting this into a simple form, we have seen that the pre-war pound was the equivalent of nearly 5 dollars; if the depreciation of the pound was such that its after-war dollar equivalent was only 4 dollars, then in the markets of the

world, an American would only need 4 dollars, instead of nearly 5, to buy what the Englishman could purchase with a pound. And during the whole of 1920 and almost up to the end of 1921, the pound had been, in fact, valued in the exchange market at something under 4 dollars.

What our authorities, therefore, had to decide was whether they should, when returning to the gold standard, give a new gold equivalent to the pound, so permanently recognizing and accepting the depreciation caused by the war, or work to bring the pound up again to its old value in gold and in dollars and in any other currency based on gold.

That we should return to the gold standard, that had, as we then thought, done such good work for us in the pre-war century, hardly anyone doubted. Mr. Keynes had published his *Treatise on Monetary Reform* in 1923, giving us many new and fruitful ideas on this subject, and especially on the benefits of a managed currency; but at that time, 'back to pre-war' was the slogan in all countries sick of Governmental muddlings and stupidities and deceits, and this country, with its special interest in foreign trade, was rightly anxious to get foreign trade moving. The gold standard was thought to have been one of the linchpins of the trade wagon in the previous period and a general restoration of it was wanted by the great majority of business men. The only question was: At what rate should the standard be restored in England? And it was hardly even a question; for, as Professor Robbins tells us, 'it was almost taken for granted that the gold standard should be restored at the old parity'.

He is much puzzled to account for this, and discusses it in an admirably lucid passage, which, nevertheless, misses altogether the real point at issue. 'Sentiment', he says, 'played a part. It was thought to be a fine thing for the pound once more to "look the dollar in the face". It was thought, too, that a return at the old rate would redound to the prestige of the City and so bring international business in greater volume to this country. There was some regard for the real value of sterling debts abroad, some regard for what was thought to be justice to the bond-holder. Partly it was due to a belief that American prices would rise and so obviate the need for deflation, partly to an ignorance of the difficulties which the degree of deflation otherwise necessary would involve. Beyond this we must not ignore the confusion created by the propaganda for a managed currency. In their eagerness to combat the views of the advocates of paper, the protagonists of the gold standard tended to assume that there was only one alternative to such a system – the gold standard at the old rate.'

Professor Robbins finds it 'difficult to do full justice to the undoubted sincerity and public spirit of those who held these opinions'; and in thus dismissing them as absurd, he shows how hard it is for economists, comfortably reclining in well-cushioned academic chairs, to understand the feelings of the business men who work the machine that keeps us all alive. 'There seems little', he says, 'in the argument for prestige', thereby ignoring the immense assistance to British prosperity formerly given by the prestige of the old pound sterling and of London, the only free market

in gold (as we used to claim, with some slight exaggeration). 'There could', he thinks, 'have been little loss of prestige in recognizing changed conditions.' But is that so? This view is hardly consistent with the account that he gives on a later page of the effect of our subsequent abandonment of the gold standard in 1931, when he says that 'in foreign eyes the abandonment of the gold standard by Great Britain was the equivalent of default. In less troubled times, the loss of prestige would have been enormous. The chief centre of international finance was not paying twenty shillings in the pound. It is important not to underestimate the effects of all this on the absolute level of confidence throughout the world', and so on.

If abandonment of the gold standard, after making every possible effort to maintain it, was regarded as default in 1931, the deliberate adoption of a devalued pound in 1925, when restoration to the old level was generally believed to be possible, would surely have been a much blacker smirch on England's financial escutcheon.

But, in fact, it was not the question of prestige that chiefly stirred the sentiment of the older generation, brought up on the stuffy old doctrines of Victorian copy-book headings. It was just a simple question of common honesty. Not so much of justice to bondholders, airily dismissed by Professor Robbins as a 'highly ambiguous notion', but before, during and after the war London was a place of deposit for foreign money, and those who deposited it expected and were entitled to expect that it would be paid back, if called for, in money as effective in buying power as the money

that had been placed here. Honesty therefore demanded that we should try to restore the pound to its old parity; and also, as Mr. Keynes admitted by signing the Macmillan Report in 1931 (just before it finally fell), to try to maintain it when restored. In making these efforts on behalf of honesty, we were not only doing our best to revive international trade and prosperity, but also trying to maintain the essential foundation of the capitalist system, which cannot work unless the great majority of those who work it act honestly and fulfil their bargains. In fact, the recent epidemic of devaluations and defaults, inevitable as many of them have been, have done as much to endanger capitalism as the wild fluctuations in trade and prosperity that have been suffered under it. As to British prestige, that, with Britain's usual luck, has been largely restored by the blunders and sins of her rivals.

CHAPTER VII

BRITAIN'S DIFFICULTIES

Quickening Movement of the Collapse – Whole Trouble Due to the War – Alleged Breakdown of Capitalism – Britain Left with Lop-sided productive Outfit – The 'Back to Pre-War' Slogan – Impossible to Achieve – Export Difficulties – New and Higher Tariffs – The Wages Question – Economists Differ – British Industry said to be Ill-equipped and Unenterprising – Industry's Answer – Terrific Taxation – No Chance against Dumpers – Redistribution of National Income – Coal Strike and General Strike – Fraudulent Company Promotions – Contrasted with Victorian 'Prudence' – Some Examples of it – The Hitler Portent – The Run on Germany – Spreads to Austria – America Frightened – Cheap Money in New York – Hundreds of Bank Failures – President Hoover Proposes Suspension of Inter-Governmental Debt Payments – Natural Hesitation of France – Delay Fatal – 'Standstill' Agreement – Run on England – Economy Committee Report – Naval 'Mutiny' – Fall of the Pound – Turning Point in Britain's Fortunes – Copied by America – Restores British Confidence – Reinforced by Fall of Free Trade.

SORTING out the threads of this tale, which has got itself somewhat entangled, we are searching for a better chance for the consumer; and have done so, so far, by looking at the periods in which the prospect of finding it seemed to be improving; namely, the pre-war century, the early years of the war and the after-war recovery, in which America took a prominent part, and Britain lagged behind other countries. Then we found that the made-in-America recovery was based on an insecure foundation – namely, reckless

foreign lending and a mad internal stock-market boom, which collapsed with a violence that ruthlessly cut down America's lending and spending.

This collapse happened in 1929; and we found it suggested that the violence of the New York boom and, inferentially, the severity of the collapse, had been attributed to an effort made by the American monetary authorities to relieve London's difficulties in 1927, by making money cheap. This cheap-money policy duly relieved the strain on London, but is said to have stirred New York and all America to its last and wildest outburst of speculation.

As to this latter point, reasons were given for doubt; but there is none about the kindly intentions of the American Federal Reserve authorities (who are the trans-Atlantic equivalent of the Bank of England) when they came to London's rescue in 1927. Inquiring why London had been in need of assistance, we found that Britain had got into difficulties by trying to restore normal conditions and revive foreign trade, and especially by being in too much of a hurry about raising the pound to its old pre-war exchange value, or, as some people thought, by not accepting the depreciation of the pound and making it permanent by a new parity.

We now have to look more closely into Britain's difficulties. They were, in the years before and after 1929, increased by internal troubles, political disturbance in Europe and a consequent revival of panic in America. And so the collapse which began in 1929 went on with a quickening movement, which drove England off the gold standard again in 1931. It also produced (at President Hoover's suggestion) a

moratorium covering all inter-governmental debt payments and finally obliged Mr. Roosevelt to mark the beginning of his term of office in 1933 by closing all the American banks for three days, to prevent their depositors from closing them by a general run on them.

All these events have a lesson for us in our search for better days, and will only be discussed from that point of view. But this fact has to be grasped and borne in mind, that they were all of them due to the war. Without the war, America would not have suddenly found herself thrust into the position of world's financial leader, while in the state of exaggerated self-confidence and excitement which spoilt her first efforts as such; she would, in the course of years, have gradually worked up to it, and, in doing so, learnt how to act the part with the necessary sobriety and restraint. And it need not be said that, without the war, we should not have been cursed with that miserable attempt at peace and all the beastlinesses and bitternesses that have followed it. Though it is also true that if victory had been with the other side the peace might, and probably would, have been worse still.

From which facts, two conclusions emerge: first, that all consumers who want to help forward the day of improvement that is waiting to dawn, and is only kept below the horizon by mankind's pugnacious folly, must seek peace and ensue it. Second, when we hear people talking about the breakdown of capitalism, we must remember that all the disturbances and disasters that are alleged to prove this breakdown can be traced back to the effects of the war. Some of these critics, it is true, say that capitalism produced the war and so

is really the true villain of all the disgusting piece; but this view will hardly be endorsed by anyone who has spent, as I have, nearly fifty years in studying the capitalist at close quarters and from the egg, with his timidity and prudence, his generosity and acquisitiveness and his eagerness to earn profits by obliging all and every customer, including nations clamouring for weapons of destruction. This readiness to sell the public what it wants has given superficial critics of capitalism a chance to call the capitalist a war-monger. But in a sane world he would be much happier in supplying the tools of peace, if only because the profits so derived, if less mouth-filling at the moment, are more solid and stable, and less likely to be confiscated. It may be that we shall find other reasons for thinking that capitalism cannot continue unless it can mend its ways very drastically; but hardly on the score of having provoked the last war and still less on that of wanting another.

Returning to the question of Britain's special difficulties in the after-war period, we find them to a great extent accounted for by the success with which, as recorded in Chapter III, she had made her amazing war-time effort, creating and equipping an enormous army, besides all the other tasks which naturally fell to her, and at the same time improving the general standard of her population, as long as the necessary supplies held out. The extent of this effort meant that she was left with her productive outfit lop-sided and out of gear, and condemned to readapt itself as best it could to a peace basis. Instead of having to find food and equipment for her fighting forces and those

of her Allies, she was faced with the task of finding work for millions of demobilized men, and for the large army of women who had been filling the places of men under arms, working in war factories, driving military ambulances and acting as nurses and orderlies in hospitals.

This state of things gave a great opportunity for statesmanship, if it could have been seen and seized in time. The country had shown astonishing proofs of its productive power; and there were, and still are, after a good deal has been done in reconstruction, immense openings through which that productive power might have been turned in the direction of making the country fit, as Mr. Lloyd George said, for heroes to live in.

But this use of the war-created productive power could only have been carried out by a continuance of Government control, of which the country was at that time generally and heartily sick. Moreover, the planning and direction of it was more than could have been expected from statesmen worn out with the awful strain of the struggle while it lasted, and still further demoralized by the strain of international adjustment when it was over.

'Back to pre-war', as we have seen, was the slogan here, just as 'normalcy' was the battle-cry of President Wilson's successors in America. But in our case the pre-war ideal was particularly impossible to achieve. Our pre-war outfit had been largely based on an active export trade; and when we wanted to revive this form of activity and expand it to provide an outlet for our greater productive power, we found that

our foreign customers, having learnt during the war to dispense with our services, were by no means inclined to give us access to their markets with the same freedom as before. South American countries that had set up factories to make, out of their own materials, boots and textiles for themselves instead of sending the materials to us to make up, saw no reason for reverting to the old system. Even if, by raising tariffs against us, they condemned themselves to wearing dearer and inferior boots and clothes, the local manufacturers had by this time established a vested interest, and could fairly argue that it would be a sinful waste to allow the capital that they had sunk in their factories to be scrapped, and that the whole thing would in that case only have to be done over again when the next war came. Then, as ever since, this fear of the next war has been the unanswerable argument against any real return to freedom of trade.

Moreover, the very success with which we had raised the general standard of our people during the war had created what was apparently a fresh difficulty, though whether it really is so is one of the questions at the core of the problem that we are trying to solve. Our wage-earners had seen that high wages could be paid during the war, and they naturally and rightly concluded that it ought to be possible to maintain them when peace came. This was one reason for the difficulty which our industry found in reducing costs of production when competitive trade resumed its sway. When the wage-earners were faced with the argument put forward by Professor Robbins, that 'a reduction of wages would have been accompanied by

an actual increase in the amount paid as wages', or by many other suggestions made to the effect that lower wages would really have meant more prosperity for those who earned them, they were inclined to be sceptical. They had so often, when pressing for higher wages in old times, been told that industry could not stand them, and then found that industry could and did stand them; they had seen, on the other side of the Atlantic, Mr. Ford proving that high wages and high profits could trot musically in double harness, and they did not see why, when things got out of gear, labour should always be asked to take the first smack in the face. And now we find Mr. Keynes, in his great work on the *General Theory of Employment*, published in 1936, saying that 'the contention that the unemployment which characterizes a depression is due to a refusal by labour to accept a reduction of money-wages is not clearly supported by the facts'. And he adds a little later that 'it is fortunate that the workers, though unconsciously, are instinctively more reasonable economists than the classical school, inasmuch as they resist reductions of money-wages'.

The workers also heard the industrial and commercial leaders accusing themselves and one another of bad and out-of-date organization. Industry was said to be physically ill-equipped and mentally inclined to produce what it thought its customers ought to want, and to tell them to take it or leave it; and the merchant class, we were constantly told, was behind its foreign competitors in personal enterprise, in looking for new markets and in cultivating old ones. In *Britain and World Trade*, published in 1931, Mr. Loveday said

that 'in all the industrial countries of Europe and America industry has been largely re-equipped and reorganized during the last ten years. . . . To one inflation, to another deflation gave the required pressure. To such pressure all responded in varying degrees, and in England too, no doubt, much reorganization is now being undertaken. But the view sometimes expressed on the Continent of Europe that the world swept by while the British industrialist sat in hope and the banker in contemplation of the overdrafts he had granted is perhaps not simply picturesque'.

To which, again, the industrialist could reply that it was idle to expect him to re-equip his works when he had to face the terrific weight of after-war rates and taxes, and the competition of foreign manufacturers, who were dumping their surplus goods into Britain at any price that they would fetch, and compensating themselves by fleecing their domestic customers behind the comfortable shelter of a tariff wall.

It might also have been argued by employers, and by the propertied classes in general, that the improvement in the relative position of the manual workers, established during the war, had been confirmed and maintained after it. Dr. Bowley, in his *Economic Consequences of the War*, published in 1930 in the Home University Library, says that 'the general result of the whole system of taxation, wage-adjustments, and social expenditure has been a very marked re-distribution of the National Income, which in the aggregate, as we have seen, was nearly the same per head in 1924 as in 1914. The very rich have less than half their pre-war

income (allowing for taxes and change of prices); the least well-off of the working classes have gained most. Between these two extremes, the tendency is almost throughout in the same direction. The skilled artisan had gained little by 1924, except the reduction of working hours; those with lower wages have gained and persons with higher incomes have lost, in general, though there has been considerable variety in the fortunes of individuals. . . . All these general statements apply to 1924 or 1925. Since then' (Dr. Bowley was presumably writing in 1930 or 1929) 'the Cost of Living has fallen and consequently real wages have risen, so that artisans are more definitely better off than in 1914, and unskilled workers have a further advantage'.

These bickerings between employers and employed culminated, it will be remembered, in a general strike and a coal strike in 1926. By this time Britain had a Labour Government, and the great majority of business men were afraid that it might do something that might not be good for their pockets. With costs of production sticky and business confidence conspicuous by its absence, small wonder that Britain's difficulties required assistance from America.

And since so much stress was laid in an earlier chapter on the frauds that accompanied America's activities in lending abroad and conducting her stock-market boom, it is only fair to recall that we also wound up the period with an outburst of company promotion which had unfortunate effects for many of those who put money into the concerns then floated. Professor Robbins writes very severely about the

'favourable atmosphere for the fraudulent operations of sharks and swindlers' generated by an inflationary boom, such as he believes this one to have been. And he goes on to tell us that the frauds were perpetrated on a public which had become abnormally gullible. 'The scale of business,' he says, 'the air of *expertise* with which it was invested, the vast mechanism of the operations of high finance, were conducive to an attitude of mind in which the possibility of fraud or serious error was disregarded. No doubt before banks had big offices and expert advisers there was an "individualist chaos". But we had changed all that. As if the fact that a man had five telephones on his desk and a menagerie of tame statisticians in the cellar was a circumstance which justified the suspension of all the maxims of Victorian prudence!'

'Victorian prudence' is good. Bagehot's *Lombard Street* reminds us of the fate of that great Victorian firm, Overend Gurney & Co., which 'stood next to the Bank of England in the City of London. . . . The partners had great estates, which had mostly been made in the business. They still derived an immense income from it. Yet in six years they lost all their own wealth, sold the business to the company, and then lost a large part of the company's capital. And these losses were made in a manner so reckless and so foolish that one would think a child who had lent money in the City of London would have lent it better'. Lest the Overend episode be thought to be too antique, the eleventh edition of *Lombard Street*, dated 1899, contains a note on this passage by Mr. Johnstone, then editor of the *Economist*, in which he observes that

'more recent instances of amazing indiscretion on the part of great firms have been afforded by the collapse of', etc., etc. And one of the last acts of the Victorian drama was the Kaffir boom, referred to on p. 88, with the rainbow-chasing prices that were paid for certain land company shares.

But, whatever may be said of the Victorians – and 'prudence' was hardly their strong suit – the company promotion of 1927 and 1928 was in certain spots a nasty business and cost the public heavy losses. These losses, however, only went *pari passu* with those suffered through the shrivelling of all industrial company prices in the years that followed, owing to the general slump that was inflicted on us from abroad.

For in 1930, when America looked almost as if she were plucking up her courage – she even did some substantial foreign lending in the first quarter of it – there burst upon Europe the first appearance, in a threatening form, of the Hitler portent. In the autumn of that year came the 'Hitler election' in Germany, which alarmed not only Germany's foreign creditors, but also many German owners of property, owing to utterances by the German Nationalist party implying an intention of dealing severely with capitalists generally and incidentally shelving the Versailles Treaty and all claims for Reparations. Financial blunders and foolishnesses were thus reinforced by 'political fears and threats of war; and both these influences reacted on and increased one another and made international business more and more difficult, and so deadened domestic business in countries, among which

Britain is pre-eminent, that depend on cross-frontier trade for full prosperity.

The milestones on that desolate road, the memories of which are fresh in our minds, need only be mentioned briefly. In 1931, the run on Germany spread to Austria, partly, it was said, because some of Austria's American creditors anticipated history by believing that she was then part of Germany. Germany, having increased French apprehensions with a Stahlhelm demonstration at the end of May, followed it in June with a manifesto demanding relief from Reparations; and the run on her was so severe that America, whose banks were seriously involved, was impelled to take a really momentous step. The New York Federal Reserve Bank had already broken record by reducing its official rate of discount to the unprecedentedly low level of $1\frac{1}{2}$ per cent. According to the theories of those who believe that all business problems can be solved by squeezing and puffing out the Bank rate concertina, such a rate ought to have sent money scurrying out of America in search of a better price for it abroad; in fact, it was still scurrying home in search of safety. Moreover, the American banks were anxious, not only about Europe, but about the anxieties of their own customers, who had run on their banks at home with such vigour that 685 of them failed in the first six months of that fatal year. So President Hoover, who had just been touring in the middle West, an area with many links with Germany, startled the world on June 21 with his heroic proposal for the postponement for a year of all payments, both of interest and principal, on inter-governmental debts.

For a moment, he seemed to have saved the situation. But delay in acceptance of his proposal was fatal, and the French naturally needed to think awhile before consenting to a scheme which gave, partly at her expense, relief to a neighbour whose behaviour had been as far from neighbourly as France's had been to her. So the miserable race began again, to see who could be quickest in getting home money out of Central Europe. Though the Hoover moratorium was followed by a general 'standstill' agreement, which gave all German debtors a breathing space for six months, the 'craving for liquidity' which so often since then has inflicted paralysis on business, being diverted from Germany, began to affect England. England was known to have locked money up in Germany to an extent that was injudicious, though perhaps justified by her desire to set her old enemy on its feet again, in the good old British fashion practised after Waterloo, with highly beneficial results for the peace of Europe and for British trade.

England's Labour Government was arraigned by a Committee on National Economy in a report, with a highly political flavour, which talked about a 'deficiency' of £120 millions. This was eagerly seized on by Opposition critics, though the alleged deficiency included a sum of £50 millions which was wanted for debt redemption, and so was not deficiency in any businesslike sense of the word. So we had a new Government pledged to carry out the necessary economies, but the run went on; and it went on quicker still when the news went abroad of a 'naval mutiny', because a few sailors refused duty owing to a cut in

their pay, such as was being imposed on all the services. It is said that, in the case of these few mutineers, the cut had been made especially severe, owing to a mistake by a clerk in the Admiralty; and this yarn is really too good to be false, because it is so characteristic of British luck that a chance clerical error in Whitehall should have terrified Britain's creditors by staging a 'naval mutiny', reminiscent of real naval mutinies at Kiel and at Petrograd, which had been among the first symptoms of revolution in Russia and Germany. For this was the last straw on the overladen back of the sterling camel. Every franc and dollar that could be borrowed had been raised. All the gold behind the pound except what had to be kept to pay back those francs and dollars was gone. And so, on September 21, 1931, the pound collapsed, having, as M. Rist, a distinguished French expert, wrote in the *Economist* of October 3, 'fallen like a good soldier, fighting for the stability of the currencies of Central Europe'. And the fall of the pound, which our National Government had worked so stoutly to prevent, proved the turning point in Britain's fortunes.

Whether it really did us any good, we shall never know. Its immediate effect was a fall in the exchange value of the pound which made us a bad country to sell to and a good one to buy from – if you can buy a pound with 4 dollars, British goods look cheaper to Americans than if it takes nearly 5 dollars to buy one, and so on all round. And so, apparently, it cured that disease of high costs, which had weakened British industry ever since the pound had been restored to parity. But other countries soon

began to take measures to counterbalance this advantage by putting up special tariffs against us; and, not long after, a large number of nations followed our example, including, finally, the United States. America was by that time deeper than ever in panic. Her tariff had already 'hit the sky', and so the good old American remedy, of another brick on the tariff wall, was out of the question; and her statesmen apparently believed, as many of us had already begun to persuade ourselves, that we had done something clever by 'abandoning' the gold standard, instead of being forced off it by necessity against which we had fought with all our might; and so, in 1934, they deliberately devalued the dollar, bringing it down to about the pound's level.

Nevertheless, the fact remains that the fall of the pound was the turning point in our fortunes, and was welcomed as a beneficent relief. In fact, a distinguished monetary expert observed to me a few days after it happened that it would cure our unemployment problem in six months. But our monetary authorities thought fit to put the Bank rate up to 6 per cent.; and though a low Bank rate is often ineffective as a stimulus to business, a high one is much more often effective as a check on it. So our recovery was held up, presumably because our rulers were afraid that we might be naughty boys and start speculating. But the fall of the pound did something towards restoring the confidence of the business leaders, and this confidence was strengthened still further when, a few months later, our free trade policy, which had shared with the gold pound the position as ark of the Victorian covenant,

was replaced by a protective tariff. British industry no longer felt that it had to compete in a home market that was the dumping ground of all the world, while shut out, as far as possible, from the markets of the dumpers. And confidence is as essential as honesty to capitalist enterprise.

Dear brother

I am in now your brother when

Aslam said in the last day.

Roll No 3, Aslam is having 249, 93.

249 — Shamta Rumia v. Aslam.

93 — Mehmet Rumiar Zuleh'

CHAPTER VIII

THIRTY-TWO TO THIRTY-SEVEN

Severity of the After-Twenty-Nine Depression – Can Private Enterprise Survive a Repetition? – How Recovery Came – Mr. Dennis Robertson's View – The Mysterious Trade 'Cycle' – American Feather-headedness – German Swollen-headedness – British Fat-headedness – Possibly just the Right Tonic – New Men gave New Confidence – Socialism and Confidence – Confidence Checked in U.S. by Official Eccentricities – Culminating in 'Gold Scare' – Consequent Collapse – Britain's Steady Progress – Checked by American Collapse, National Defence Contribution, Threats of European War – The Croakers' Chorus.

As to the appalling extent of the after-twenty-nine depression, the evidences are admirably summed up by Professor Robbins. It has, he says, 'dwarfed all preceding movements of a similar nature both in magnitude and intensity. In 1929 in the United States the index of security prices stood in the neighbourhood of 200–210. In 1932 it had fallen to 30–40. Commodity prices in general fell in the same period by 30 to 40 per cent.; the fall in particular commodity markets was even more catastrophic. Production in the chief manufacturing countries of the world shrank by anything from 30 to 50 per cent.: and the volume of world trade in 1932 was only a third of what it was three years before. It has been calculated by the International Labour Office that in 1933, in the

world at large, something like 30 million persons were out of work. There have been many depressions in modern economic history but it is safe to say that there has never been anything to compare with this'. That the world should have struggled out of it, and should have made for some years a very fair attempt at general recovery, is an amazing proof of the toughness and elasticity of the system of private enterprise, which succeeded in pulling its feet out of the mire with, or in spite of, the assistance of Governments; but if it is safe to say, with Professor Robbins, that there has never been such a depression before, it is, perhaps, equally safe to say that any repetition of it is likely to hammer the final nail into the coffin of that system.

Already, the patient has been seriously weakened by the virulent disease of default; for honesty, as we have seen, is an essential item in its healthy working; and the violent fluctuations in security and commodity prices that have marked and checked, and may have seriously reversed, recovery, and the sleeping sickness of unemployment, which America and Britain have never succeeded in dispelling, are symptoms that will, if they cannot be allayed, wear out its remaining strength.

This period of recovery and the causes of the check that was lately imposed on it are of the highest importance from the point of view of our inquiry. As it is fresh in our minds, there is no need to go deeply into the details of the period's history, even if I had the time and materials for doing so, and if the kind of reader for whom I write would have patience to endure them. Scientific students who wish for them

will find them fully set out and summed up in Mr. H. V. Hodson's book on *Slump and Recovery, 1929–1937*, which is very properly described in its sub-title as a 'Survey of World Economic Affairs'. Here we are groping our way towards an attempt to make ourselves, and especially those who get the rawest deal in the world's market, all better off. Basing our effort on the experience of the most recent period, we shall look chiefly at what has happened in America and in our own country and those most closely connected with it by political and commercial ties, illustrating the story with extracts from the works of the learned and diligent experts who have studied it in the light of scientific investigation.

From one of them we have an amusing account of the beginning of recovery in three of the principal countries. Speaking in August, 1933, at a Liberal Summer School, Mr. Dennis Robertson, a Cambridge economist who adorns his lucid expositions with pleasant wit, said, 'I believe that the trade cycle, for mysterious reasons of its own, did begin on the upgrade in the middle of last year, and that neither the feather-headedness of the American Government, nor the swollen-headedness of the German Government, nor the fat-headedness of the British Government, will stop it' (*The Times*, August 9, 1933).

Please note, on this first introduction to that 'trade cycle' conception, which has done so much to frighten us during 1937 and 1938, that, according to Mr. Robertson's high authority, it acted on this occasion in a mysterious and unaccountable manner – in other words, that the inevitable regularity with which some

people believe it to work is a delusion. Whether it really exists at all, in any sense to which the word 'cycle' can be truly applied, is a matter which will have to be discussed later on.

For the present we are concerned with the beginning of recovery, and with Mr. Robertson's suggestion that the Governments of three leading countries failed to stop it, by the various forms of stupidity that he humorously described.

With all deference to his opinion, there is something to be said for the view that the Governments in question, though open to the criticism applied by him to their policy, really did their countries more good than harm by providing them with just that tonic that business requires – namely, confidence that it is going to have a chance of earning a profit. This is the acid test by which alone all remedies designed to quicken production and prosperity must always be judged, at least when we are trying to improve conditions in a country in which private enterprise is the dominant mainspring of business. Show the business organizers a prospect ahead of working at a profit, and they will tuck up their sleeves and get busy. Without this prospect, whatever carrots you may dangle before their noses in the shape of cheap money or stable rates of exchange, or whatever sticks you may belabour them with behind, such as the abuse with which they have been bespattered in America, they will just sulk – and with good reason, for if they cannot earn profits, they cannot live. This obvious fact, too often forgotten by eager reformers, has to be kept constantly in mind.

America's policy under the brilliant and erratic

leadership of Mr. Roosevelt is usually described by American critics in terms much harsher than Mr. Robertson's. But if we look back to the time of unprecedented depression, all the more devastating owing to the period of skyscraping confidence that it had followed, in which he took office, we can easily account for the very real feeling of hope and confidence with which his dramatic entry on the Presidential stage was welcomed. His first act was to close all the banks of the United States for three days, to save them from having to close for all time. The weakness of the American banking system had come home to roost. It had been carefully reformed at the top by the establishment of the Federal Reserve banks and left cluttered at its base with a crowd of thousands of tiny little banks dependent on the solvency of little local industries, or of farmers hard hit by the collapse in the prices of cereals, cotton and hogs. All the men to whom the Americans had looked for leadership were utterly discredited by the slump – the bankers, financiers and business leaders, and the Republican party which they were believed to have controlled. In Mr. Roosevelt the country hoped that it had found a new man and a real man, who would do and dare all things to restore prosperity or rather to give it a new prosperity, built on a cleaner and sounder foundation. This feeling of a radical change, from conditions which had produced disaster, was enough to give fresh hope to America and to throw, for a time, her enormously important weight on the side of recovery.

In Germany, the same influence worked in different conditions. Herr Hitler, with the magnetism of his

oratory, had convinced his countrymen that he was going to lead them back into a position among the nations worthy of their numbers and efficiency. If his bombastic eloquence deserved Mr. Robertson's description, it may have been all the more convincing to his countrymen, whom Professor Robbins depicts as having 'minds besodden with the turgid anti-rationalism which in that part of the world has for many decades passed as profundity'. But the main fact was that they, like the Americans, had been plunged in despair, though for different reasons, and thought that a better state of things was in store for them. In Herr Hitler they also had got a new man, and believed in him. In business matters the state of mind of the crowd, and especially of the business leaders, counts for more than anything else.

From the experience of Britain, the same moral can be drawn. Our recovery came earlier and was less sensational and more enduring, because in our case the previous slump had been less devastating, showing itself, as Professor Robbins says, 'in the first instance far more in a falling-off of demand from the countries where the boom had been rampant than in any grave internal maladjustment'. Also, it will be remembered that we had, owing to our hasty return to the gold standard in 1925 and the subsequent industrial disturbances, only taken a half-hearted share in the pre-slump years of prosperity. Moreover, the confidence of our public in its banks and of our banks in their public had received a remarkable demonstration and confirmation when we were driven off gold. Our banks then had the courage to open for business next day

with that calm British imperturbability which our foreign critics ascribe, perhaps rightly, to our lack of imagination; and their depositors, who had been told by their political leaders that the fall of the pound would be the beginning of financial chaos, repaid the courage of the banks by making not the slightest attempt at a run on them.

At the same time the British Government, fat-headed as Mr. Robertson considered it, was fat-headed in just the way that was suited to the temper of the public and its business leaders. Distinguished economists were urging it to try measures of a kind that had hitherto been considered unorthodox, such as leaving the Budget unbalanced and therefore paying out more money (borrowed or manufactured for this purpose) than it took from taxpayers, or engaging in large and expensive schemes of public works, so as to set industry going. By this expenditure it would, it was hoped, 'prime the pump' of enterprise, which would then, thus lubricated, go ahead on its own steam. In the address from which I have already quoted, Mr. Robertson had described himself as an 'unrepentant believer in the policy of public works during a depression'.

Belief in this policy has grown much more general in the last five years, but in 1932 and 1933 it was still regarded by most business men as smacking too dangerously of Socialism; and the 'grim' budgets to which Mr. Chamberlain, then Chancellor of the Exchequer, treated us were accepted as embodying the sound traditions of British finance. The soundness with which our National Government was believed to be conducting the country's finances was pleasantly

contrasted with the reckless spendthrift policy that had been attributed to the Labour Party when it held office. Whether there was really much to choose between the two parties, in the matter of financial prudence, is a matter on which much might be said, if it were relevant to our present concern. What is highly relevant is the fact that the Labour Government did not enjoy the confidence of business men, and so its presence in office was bad for business; while the National Government, being largely Conservative, was welcomed by the majority of business men and cheered them up by its mere existence, and was able to carry out highly Socialistic measures with the hearty approval of men of property. As the old proverb says, one man can walk in and steal the horse, while another cannot even look over the hedge. It may be very unfair to the Socialists, but it is certainly true that business will never be happy when they are in power, until they have somehow persuaded business men that they do not mean to confiscate most, if not all, of any profits that they may make and of any property that they may own. As it is, the mere fear of confiscation is so deep and widespread, that it has been quite truly said by a Socialist leader, that a first-rate financial crisis would be the probable result of the return of his party to office.

In all the three countries, then, in which recovery had most markedly manifested itself, a new man or a new Government had given business new hope of more prosperous times. In America and Germany there had been a dramatic change of sentiment from the depths of despair and humiliation to an outburst of

confidence and hope. In Britain the change was less sensational, but here we had not only got the men in whom business trusted at the helm, but they had, most unwillingly and in spite of violent efforts, steered us on to the rock which they had been specially chosen to avoid – namely, the fall of the pound from gold; and this fortunate accident, inflicted on us by foreign panic, had made us feel much more comfortable and increased the confidence of business. It also, being immediately followed by the currencies of most and ultimately of all, of the leading countries relieved the world of all fear of gold scarcity; with which some economists had threatened it.

If this reasoning is correct, the recovery of 1932 and after was no mysterious effect of a supposed trade cycle moved by some hidden hand, the working of which is above and beyond all human control, but was a simple effect of greater confidence produced by political influences. And the truth of this reading of it is all the more evident, when we follow its course during the next six years. In America, the progress of recovery was continually interrupted and checked and finally turned into violent collapse by domestic political bickerings. In Germany it was interrupted by the development of external ambitions and aggressions, accompanied by an acute attack of 'autarky' – the craving for self-sufficiency. In Britain it was turned into recession, not by any internal difficulties, but by the American collapse, with its inevitable effect on commodity prices and, through them, on international trade, and by the growing fear of widespread war on the Continent, due to Germany's actions and suspected

intentions. Politics and political apprehensions, internal in America, external in Britain, turned what might have been sustained recovery and progress towards a generally higher standard, into violent recession on the other side of the Atlantic and moderate recession on ours. At the same time, wars in China and Spain, and fears of wider European complications arising from the latter, were contributing to the dislocation of international trade, and a terrific armaments race, stimulated by Germany's example, was straining the finances of most European countries, but was, at least, quickening demand for certain kinds of goods, maintaining employment and promoting production, though only of weapons of destruction and defence.

Looking a little more closely into the causes of disappointment, we find that in America the enthusiasm with which Mr. Roosevelt was hailed on his inauguration was soon tempered by the incalculable uncertainty of his actions, and by the violently critical attitude adopted by him and by his lieutenants towards the leaders of finance and business. Concerning the sins and blunders of these leaders, plenty was said, on American authority, in Chapters IV and V; but it is fair to suppose that they were conscious of sin; and that if they had been treated gently and kindly they might have been induced to turn over a nice clean new leaf and join in carrying out the reforms that were obviously necessary. Instead of which, the famous attack on the 'money-changers' with which Mr. Roosevelt practically told the World Economic and Monetary Conference of 1933 to shut up before it had opened

was the beginning of a series of diatribes, and of measures dealing with operations on the Stock Exchange and with financial arrangements, such as capital issues, which reduced Wall Street to a condition of what the President himself described as 'jitters'; while at the same time industry, fearing that any considerations of profit-earning would be ignored by the authorities in their efforts to promote consumption by raising wages, sulked in its tent and was accused by a distinguished English visitor of organizing a 'sit-down strike'.

One great difficulty was that no one knew what Mr. Roosevelt would do next; and so uncertainty always checked any tendency towards using the many opportunities for constructive work offered by housing deficiencies and the needs of the railroads and utility companies for re-equipment. His monetary policy, humorously described as aiming at a 'boloney dollar', followed the example of Britain and the sterling area by devaluation early in 1934. This measure gave American business a certain amount of fresh courage and might have given it a good deal more, had it not been tempered by uncertainty as to what monetary or political surprise might be sprung upon it next. What finally did give a real stimulus to enterprise was the action of the Supreme Court at the end of May, 1935, in giving a decision which practically asserted the principles of the American constitution, as interpreted by it, as being above the power of Congress and the executive to alter them. After that, bitterness became even more bitter. The President was outspoken on the subject of the Supreme Court and his opponents accused him of intending to undermine its authority

or pack it with his own minions and generally of tampering with the constitution. Activity, however, went ahead at a fair pace, thanks to the belief that the President's powers were limited, and speculation, both in securities and commodities, indicated the growth of confidence. Under the stimulus of higher commodity prices, international trade, which had, throughout this period of recovery, lagged behind the growth of internal production in most countries, expanded until it beat its pre-war record by a substantial margin.

Then in the spring of 1937 recovery was killed for the time being in America, by two remarks made by the President – first, that an economic catastrophe comparable with that of 1929 threatened in the not distant future; and, second, that the prices of certain goods were too high; at the same time there were rumours that he and his monetary advisers intended to reverse, partially, the process by which the dollar had been devalued, and to take other measures tending to deflation and lower prices. The mere suggestion of this intention caused such a collapse in commodity prices that its existence was vehemently denied; but it had certainly been entertained, and the 'gold scare', as it was called, worked only too well.

The sequel shows how easy it is, especially in a mercurially-minded community such as America, for the ruling powers to produce depression, and how difficult it is for them to stop it. From that time forward until the summer of 1938, the decline in American production was even more rapid than it had been after 1929, in spite of measures designed to increase and cheapen credit. It was not until June, 1938, that

there was a definite change in business sentiment, owing to the adjournment of Congress, a belief that stocks of goods acquired during the previous speculative outburst had been worked off, and the knowledge that the Government was about to stimulate consumption, and incidentally placate voters with a view to Congressional elections in the autumn, by spending some £900 millions. It should be added that American opinion, besides being thus swayed by the changes and chances of local politics, was at the same time highly sensitive to fears of war in Europe.

In Britain, we had been subjected to no such political vagaries and uncertainties as were inflicted on America. Apart from a spasm of apprehension in February, 1935, when a muddle about the Means Test threatened a revolt which the Government averted by concessions, the National Government had retained the confidence of business in spite of many and repeated attacks on its foreign policy by an Opposition which urged it to take a stronger line against the sabre-rattling despots. This confidence had even been increased by the announcement, in February, 1937, of a £1,500 million five-year armament programme, to be paid for in part by borrowing. The *Economist* index of business activity rose steadily, with seasonal fluctuations, from the third quarter of 1932 to the third quarter of 1937; after which it declined under the influence of the American collapse, with its effect on international trade, and the threatening appearance of European politics. It had successfully ignored Abyssinia and Mediterranean piracy; but the American gold scare and its catastrophic consequences, followed

by Mr. Chamberlain's ill-advised and promptly modified National Defence Contribution, and Germany's seizure of Austria and threat to do likewise with Czechoslovakia, were too much for our export industries; and the index came down almost to the 1935 level, which was just above that of 1929. Business sentiment had also been subjected, long before this reverse took place, to a chorus of dreary vaticinations, which told it that prosperity could not last, but must inevitably be followed by depression, the severity of which would be a reflection of prosperity's achievement. This croakers' chorus, with its burden, 'The more prosperous you are to-day the more stone-broke you will be to-morrow', has acquired a new emphasis in these times, owing to certain novel features connected with it, and is of the highest importance to our present inquiry.

CHAPTER IX

CYCLISTS AND CHARTISTS

The Trade 'Cycle' – The Truism of Business Fluctuations – A Fit Study for Economists – The 'Cycle' now Part of Journalistic and Stock-Market Vocabulary – And Believed to be a Real Cycle – So Much Up, So Much Down – A Dangerous Fallacy – Statistical Cocked Hats – Business Cocks them Upwards – Mr. Henderson on Regularity of 'Cycle' – Mr. Cole Denies its Existence – The *Economist* Investigated – Dr. Snow on Trade 'Cycle' Myth – And Its Consequences – His Criticism of Professor Pigou's Exposition – Mr. Harrod on 'Depression Due' – Sir William Beveridge on Variations in Unemployment – And on 'Cycle's' Disregard for Actions of Governments – Ignores Roosevelt Vagaries – And Wars and Fears of Wars – Messrs. Henderson and Keynes on Absence of Pre-Slump Booms.

It was noted at the end of the last chapter that a new influence had been included among the causes which produced severe trade reaction in the United States and a more moderate recession in Britain. This was the development, or exaggeration into a terrifying form, of the theory of the trade cycle, and its percolation, through the stock markets, to the consciousness of business organizers, in a manner that made their flesh creep and undermined their confidence in business prospects.

This trade cycle theory, in so far as it has any truth in it, is merely a statement of the truism, familiar to everyone who knows anything of any market, that

there are ups and downs in business, just as there are in almost all the other facts of human experience, from politics and the weather to one's own temper and digestion. The existence of these ups and downs has, of course, always been recognized by business men. The cautious among them have consequently been inclined, in times of humming prosperity, to be prudent in the matter of cracking on sail, while the care-free folk who believe in making the running while the going is good, have forged ahead with every stitch of canvas spread.

Up to this point, recognition of trade fluctuations and of the need for caution when the business sky is too bright to be trustworthy, is evidently salutary, as the care-free folk who have ignored them, have often found to their cost. And it was an excellent thing that economists should have studied the question of these fluctuations and tried to discover means of checking them. Any success that they may achieve in this effort will be of priceless benefit to the business world; and in the meantime, no subject could be devised, more suitable to exercise the imagination and ingenuity of these learned and diligent ladies and gentlemen.

For all the data on which the arguments are based are a matter either of fallible estimate or pure guesswork. Tests of business activity can, from the nature of the case, never approach anything like the accuracy of those applied, for example, in a chemical laboratory. The prevalent extent of unemployment, which seems to be the most obvious and trustworthy, if one could trust it, is weakened as a test by the fact that the

records of employment are far from complete even now, after great improvement, in Britain, and even more so in the United States. And at the other end of the problem, no one can ever know why, or even exactly when, business men begin to cheer up after a depression or to feel doubts about the staying power of a trade boom. In fact, as will be shown, expert opinion is sometimes at variance as to whether a period of activity should or should not be described as a boom or merely as a spell of reasonable prosperity.

This being so, the question is, given our present knowledge concerning it, an ideal subject for discussion among experts, because no one can be proved to be wrong and so all can remain convinced that they are right. It has cropped up periodically before the Economic Section of the British Association during some generations; and lately, owing to the violence of recent fluctuations in business activity, it has rightly and properly received especially serious attention.

As long as it was confined to discussion among experts, the trade cycle discussion was a highly meritorious exercise, out of which something highly valuable may some day be evolved. But the phrase has now ceased to be economic jargon and has invaded the vocabulary of journalism and the Stock Exchange, and of the public which they feed with ideas and with fallacies. If the Merchant of Venice were alive to-day, his friends would no longer ask 'Now, what news on the Rialto?' but 'What stage of the trade cycle do you think we are in?' And everybody has heard of the old lady, who thought that trade cycles ought to be

abolished by the Government, because she had nearly been knocked down by the butcher-boy's.

This general discussion of the trade cycle would be a matter for satisfaction, as showing how well the present public is educated in questions of economic theory; but unfortunately, the public and its advisers seem to have got it into their heads that the cycle is really a cycle, which means to say that it is a complete revolution from bottom to top and down again to the bottom; and this fallacy has a bad effect on business sentiment. The late and great Graham Wallas referred in his book on *Human Nature in Politics* to the 'cocked hat' made by the curves on certain kinds of statistical graphs, rising to a peak and coming down to the line of departure. But business progress does not, in times that can be described as normal, work on these lines, for if it did progress would be ruled out, and business would be just a series of jumps and bumps. The cocked hats of trade are not drawn on a straight line, but look more like a cocked hat worn well at the back of his head by an admiral full of gaiety and good wine; with the result that the latter end of the curve is at a level well above that of the hindmost point. In other words, and varying the metaphor, business goes forward like a looping caterpillar climbing up an incline. It makes big and little loops; but the bottom of the depressions is, on the average if not invariably, on an ascending scale and not in a straight line. Otherwise, how could that oft-quoted fourfold improvement in general prosperity scored during the century before the war (see p. 31) have been secured?

Economists, of course, know all about trade fluctuations in the past, and cannot have meant, by describing them as cycles, to create in the public mind this delusive and unfortunate belief that the downs are necessarily as severe as the ups are exhilarating. It must be admitted, however, that some of them have used language about the cycle that go far to foster it. For instance, Mr. Hubert Henderson, in his illuminating work on *Supply and Demand*, tells us about 'one of the most striking and formidable of economic facts, the regular alternation of periods of good and bad trade, each very widespread, if not world-wide, in its range, each comprising certain regular phases of acceleration and decay, and each infallibly yielding sooner or later to the other'. In fact, the word 'regular' which Mr. Henderson here uses twice in the same sentence, seems to be the last which can be accurately applied to anything so capricious and incalculable as trade fluctuations.

In studying the works of the economists, however, when one comes across a statement that one ventures to question, one is sure, if one looks far enough, to find it contradicted, if not by the writer himself, by one or more than one equally distinguished exponent of the science. Against Mr. Henderson's view of the regularity and inevitability of the trade cycle we can cite Mr. G. D. H. Cole, observing, in his *Intelligent Man's Guide through World Chaos*, that 'the theory of the trade cycle, as the automatic and incorrigible accompaniment of modern business enterprise, dies hard. For my part', he continues, 'I have never believed in this theory at all. I do not believe that there is, or that

there ever has been, such a thing as the trade cycle'. But since he admits that this view is still regarded as wildly heretical among the majority of economists, he goes on to examine the theory as stated by the orthodox.

Into the details of this examination, conducted with all Mr. Cole's admirable lucidity, we need not follow him. Suffice it to say that he rejects the psychological explanation, which attributes booms and slumps to over-confidence, followed by disillusionment, in the minds of business men, and the monetary explanation, which ascribes them to credit expansion curtailed with a jerk (which surely must have sometimes been a true cause of trade reaction in the days of the gold standard and of scarcity of gold); but is inclined to think that there may be something in the explanation of trade fluctuations given by Mr. J. A. Hobson, who was anticipated, as Mr. Cole informs us, by Karl Marx. This explanation finds the villain of the piece in 'oversaving' – a point to be considered later.

Mr. Cole, however, cannot regard this explanation of trade fluctuations as wholly adequate. For, as he very pertinently observes, 'if we look back at the booms and depressions of the past century without any pre-conceived theory in our minds, we shall find that they are, one and all, susceptible of explanation in terms of special causes peculiar to each' – in other words, they were not regular and inevitable incidents in a trade cycle, but accidental events due to some outside influence. Moreover, Mr. Cole insists that neither Mr. Hobson's theory nor any of the others is really able

to explain satisfactorily why, when a slump has once occurred, it ever comes to an end; for, as he goes on to show, 'when once a slump has set in, it tends to set in motion artificial causes which deepen and deepen the depression of trade'. Again he looks back at the pages of history and finds that recoveries have been produced, not by the alleged inevitable working of the supposed trade cycle, but by some happy accident or occurrence. 'The great revivals of the past are all associated with fortunate events that have sufficed to overcome the accumulative tendencies of trade depression. Such factors as fresh discoveries of gold, the opening up of undeveloped areas, the sudden expansion of demand in some particular market . . . the rapid exploitation of some new epoch-making discovery . . . these and similar causes have sufficed in the past to rescue the business world from repeated depressions.'

This being so, Mr. Cole, writing this particular book presumably in the early part of 1932, since it was first published in September of that year, was exercised by the question whether, in the slump then prevalent, some similar good fortune could be counted on to bring the world out of 'economic prostration'. His question was promptly answered, for, as we saw at the opening of our last chapter, business began to revive in the middle of that year. As we then noted, in Mr. Dennis Robertson's opinion, this happened because, 'for mysterious reasons of its own, the trade cycle did begin on the up-grade', a view which I ventured to controvert, by pointing out how, both here and in the United States, a change of Government had given the

business world the necessary tonic of confidence. Mr. Roosevelt on one side of the Atlantic and the National Government on the other, were, I suggested, the midwives and fairy godmothers who assisted and blessed the birth of the bantling of recovery. It was thus neither mysterious, as Mr. Robertson taught us, nor an inevitable development of the trade cycle, as Mr. Henderson's imaginative description would imply; but was produced simply by one of those fortunate events, which, in Mr. Cole's doctrine, have always in the past 'overcome the accumulative tendencies of trade depressions'.

But the evidence of Mr. Cole, in denouncing the trade cycle as a non-existent bogy, may well be flouted by business men, on the ground that he is, on his own admission, only one sceptic among the immense majority of economists who believe in it, and also that he is a Socialist, and therefore, in the eyes of most business men, a wrong-headed dreamer if not a predatory bandit. And since it is of the utmost importance to get rid of this trade cycle fetish, for reasons which will be more evident when we go on to describe its effect on business sentiment, I must be allowed to produce some more shot, taken from authoritative lockers, to fire at it.

In an article in its issue of March 6, 1937, entitled 'Is there a Trade Cycle?' the *Economist* observed that 'even Communists now admit that trade sometimes goes up, and even the stock markets admit that it sometimes goes down. Is it really a *cycle* at all, however? Or is it merely a series of irregular ups and downs? Trade, after all, can only go up, stand still or

go down; and is it so very surprising that it does first one of these things and then another? And if there is no genuine cycle, is there any reason to believe that recovery will stop just because it has already continued for about the traditional period?'

Answering these questions, the *Economist* noted that 'several well-known economists in many countries, including Professor Cassel, have argued that there is no cycle, but merely a succession of irregular ups and downs'. It decided, however, that this is not true, though the historical evidence that it cited, on the authority of Professor Macgregor, might well be used to show that it is. For it found from it that 'the interval between peak and peak, or between trough and trough, varied between five and eleven years. But whereas there was only one interval of five years, one of six years, and one of eleven years, there were nine intervals of seven years, eight of eight years, six of nine years and four of ten years'. These figures, surely, look much more like irregular ups and downs than the performance of anything fit to be described as a cycle. The *Economist* also admitted that though, in its opinion, 'the cycle has in general remained world-wide, major changes in policy have modified its operation in different countries'. Which does not seem to leave the regularity and inevitability of the 'cycle' much of a leg to stand on.

My next witness is Dr. E. C. Snow, an expert handler of trade figures, who read before the Statistical Society on April 26, 1938, a paper entitled 'Is the Trade Cycle a Myth?' In it he observed that the main literature on trade cycles 'is of a theoretical nature, in

which the word "trade" is frequently used in a manner not in literal accordance with the dictionary meaning,' and that there is also a considerable ephemeral literature, in the financial columns of newspapers and occasionally as general news, in which the conclusions of the theoretical writers are brought to the attention of those who trade. 'Writers of financial columns as a rule', he continues, 'do not exercise the caution in expression practised by professed economists.' This is, surely, somewhat unfair to financial journalists; for, in this connexion at least, it is not they but the theorists who have, by a misuse of the King's English, misled the King's lieges into a false belief. As Dr. Snow most truly points out, the word 'cycle' implies regular intervals, and regularity in the cycle was a point insisted on, as we saw above, by Mr. Henderson; whereas regularity is just the feature which, as Dr. Snow proves, is conspicuous by its absence from trade fluctuations. It was the economists who invented the phrase, trade cycle, presumably because they, most unfortunately in this connexion, forgot to apply that precision and 'caution in expression', which they sometimes use with such bewildering effect, as when they prefer to describe 'saving' as 'spontaneous lacking'.

However, let us hear what Dr. Snow says as to the consequences. 'Small wonder', he continues, 'that those whose information on the subject is based solely on what they read in such columns' (of the newspapers, that is) 'should begin to feel that there may be some inherent property in modern life which will inevitably bring about the return of the sad economic conditions they experienced a few years ago. In making preparations

to try to meet the wave which they fear will come in due course and take them off their feet and deprive them of their jobs, they help to spread the very conditions likely to give the wave momentum.'

This is serious enough, though it does not cover nearly all the ground, as will be seen when we come to examine the effects of the cycle theory on the stock markets, and, through them, on the sentiment of industry. But it certainly justified Dr. Snow in determining to re-examine the practical aspects of the problem. In order to do so, he takes certain figures of the unemployment record (in so far as it existed) of the nineteenth century, brought up to the outbreak of the war in 1914. These figures have been reproduced in his book on *Industrial Fluctuations* by Professor Pigou, who set them out in charts and drew the following conclusions, as quoted by Dr. Snow: 'The chart displays a clearly marked rhythmic or wave-like succession of fluctuations. The waves are not of equal length nor yet of equal amplitude. From 1860 till 1914 the intervals between successive years of minimum unemployment are 7, 10, 7, 10, 7, 7 and 5 years respectively; the intervals between successive maxima 6, 11, 7, 7, 11 and 4 or 5 years respectively.'

Commenting on these figures, which show little enough approach to regularity, Dr. Snow observes that when we recognize how extremely deficient the data are as a true representation of the industrial circumstances of the period, we must acknowledge that Professor Pigou's sequence 'may be quite consistent with the true figures for the *whole* industrial population being 7, 10, 6, 11, 6, 8, 5'.

And yet, Professor Pigou, having admitted that there is no uniformity either in period or amplitude of fluctuations, but only a 'distinct approach to regularity', allowed the poor patient public to be deluded by this fatal phrase, 'trade cycle', into thinking that after a certain period of prosperity, hard times are as inevitable as the tax-collector.

And it is not only the uninstructed public that suffers from this defeatist delusion. Mr. R. F. Harrod, who presided over the Economic Section at the recent meeting of the British Association, contributed an article to *The Times* of August 11, 1938, in which he asserted that 'by the normal reckoning of the duration of the cycle (seven to eleven years from peak to peak; the last peak in 1929) depression is due'. For this and other reasons, he made certain proposals for monetary measures, which will have to be considered when we come to examine the question of monetary manipulation as a remedy against fluctuations. The state of mind then prevalent was well exemplified by a letter to *The Times* from a Conservative Member of Parliament, who urged that 'in default of action on our part along the lines suggested by Mr. Harrod we shall run the risk of a serious slump, followed inevitably by a financial crisis which will make 1931 look like a mild flurry'.

Is it any wonder that business dries up when responsible people pelt it with this kind of prophecy?

That meeting of the British Association also produced an important pronouncement from Sir William Beveridge, well known as the founder of labour exchanges, as author of many authoritative publications

on unemployment and other social questions, and as Director for many years of the London School of Economics. His evidence against the cycle is all the more damning because he is himself a believer in it. In his paper entitled 'Unemployment in Relation to the Trade Cycle', he said that he believed in the existence of the cycle, because of the figures of employment in the period from 1860 to 1938. 'The figures showed that over the 78 years unemployment was never stationary.' (One wonders what he had expected?) 'Leaving out of account the abnormal period immediately after the war, the percentage of unemployment was seen to move in the same direction for a period of never less than three years, except for two years of rise in 1905 and 1906, followed by two years of fall in 1907 and 1908. This abnormally short fluctuation was seen to follow on an abnormally long one, so adjusting the average.' (Quite so, but also destroying any approach to the regularity which a properly conducted cycle ought to display.) 'Plotted as curves, the levels of employment were seen to be neither steady nor, on the other hand, meaningless and irregular oscillations. . . . The curve therefore, presented the trade cycle as a phenomenon of sufficient persistence to justify scientific study'; but not, surely, to justify creating a belief in the business mind that prosperity can never endure.

When he comes down to recent events, Sir William finds that 'during the past ten years the trade cycle has given a rather striking illustration of its disregard for the actions and attitudes of Governments. In 1931 and 1932, Great Britain, Sweden and the United States

were alike in depression. The inhabitants of each country, feeling unhappy, changed their governments – here from Labour to Conservative National; in Sweden from Conservative to Labour; in the United States from Republican to Democrat. . . . And all three countries, after these widely different changes of government, proceeded to prosper, and recovered for several years. All three to-day have still the same types of government as saw recovery begin and establish itself; all three, with these identical types of government, are now entering a new depression'. From these facts Sir William concludes that 'it would hardly be possible to find a stronger illustration of the apparent impotence of governments in the face of the trade cycle'.[1]

This terrible and dominant cycle is thus elevated into a tyrant which is not, in Sir William's opinion, 'a natural phenomenon independent of human institutions', but 'deeply rooted in our economic institutions' and needing much more drastic measures than any yet attempted by the Governments named to affect its swing.

With regard to the dawn of recovery, it will be noted that he seems to agree with Mr. Dennis Robertson's opinion, quoted on p. 125, though the latter included Germany instead of Sweden in his triangle of reviving states. Mr. Robertson thought that none of the various forms of stupidity shown, in his opinion, by his three Governments could stop the upward turn in the trade cycle, started 'for mysterious reasons of its own'. Sir William seems to imply that because his trio were

[1] *Times* report, August 23, 1938.

of different political complexions, their access to power could have had no influence in quickening trade. But we know that in the case of Britain and America, the mere fact of change – from a (perhaps rather unfairly) discredited Labour Government in one and an utterly despised and spat upon Hoover administration in the other – made all the difference to business confidence. This change gave the business leaders just that hope of earning profits which is the only really effective spur to trade expansion in countries under a system of private enterprise; and revival in the two great markets of America and Britain meant revival for Sweden and for most other countries.

But it is in his account of the subsequent recession that Sir William shows most clearly that sublime indifference to outside facts that must make the lives of statistical inquirers so peaceful and pleasant. Immersed in their study of blue books, with their noses buried in the charts and graphs in which they so ingeniously depict the story of material and economic events, they can ignore the brutalities and stupidities of the political world and their effects on the progress of business. Because the same Governments are still in power under which recovery began and under which recession has shown itself, Sir William argues that the trade cycle has shown disregard for the actions and attitudes of governments. Thus he ignores the fact that the hostile attitude of the American Government towards business, and the capricious and inconsistent efforts that it has made to stimulate it by questionable methods, have been the chief cause of recession in America, which has affected trade all over the world.

What is still more strange, he does not seem to have noticed the wars in Abyssinia, China and Spain, piracy in the Mediterranean, the growing aggressiveness of Germany, the seizure of Austria and the threat to Czechoslovakia, all reducing business sentiment to a state of nervous apprehension in which enterprise was bound to shrivel. These, surely, were more than sufficient reasons for recession in trade, in a country so dependent on world prosperity as Britain. It was no 'phenomenon deeply rooted in our economic institutions', but the predatory habits of certain forms of military despotism that, combined with America's vagaries, checked our progress. If Sir William means that no British Government can make Britain prosperous while world trade is shivering and shrivelling, he may be right. But it is surely rather a large order to contend that the recent recession has been due to the inherent reactionary force of a trade cycle, strong enough to ignore all governmental action, when so many adverse political influences were checking enterprise that its maintenance of fair activity here was really a remarkable achievement, to which the existence of a Government in which business had confidence, undoubtedly contributed.

Finally, before leaving this question of the trade cycle myth and its evil effects on recent sentiment, it is pertinent to record that we have high economic authority for asserting that the slumps and recessions of the past nine years cannot have been due to the trade cycle, because they were not preceded by industrial booms, and the boom-slump pendulum is the whole basis of the alleged cycle.

Writing in *Lloyds Bank Monthly* review for December, 1936, Mr. H. D. Henderson raised the question, how far it was true that booms cause or aggravate the depressions that follow them. He pointed out that we had just emerged from the most disastrous depression of modern times, and yet this depression was 'preceded by a period which, if it can fairly be called a boom at all, was, in its industrial aspects at least, a boom of the mildest character. . . . In Great Britain the outstanding feature of the period was the prolonged depression of the staple exporting industries. . . . In other countries, it is true, economic development was rapid, particularly in the United States. But not even in the United States did we hear of a general shortage of labour, or of any other indications that demand generally was running strongly in excess of supply. . . . Unquestionably there was a stock-exchange boom which contributed not a little to the subsequent collapse; and there were many other radically unsound features of the economic equilibrium of 1925–9. But it remains doubtful whether these features are appropriately summed up by the general designation of boom'.

As to the 'boom' which is supposed to have reached its peak in 1937, Mr. Keynes, in an article published in *The Times* in January of that year deprecated the application of the word 'boom', as an opprobrious term, to the 'very moderate prosperity' that we were then enjoying.

But if we have not had any booms, there cannot, according to the cyclists, have been any slumps. So the slump of 1929 to 1931 never happened. But since

it certainly did happen, there cannot have been any trade cycle. Nor again, according to the cyclists, could a slump have been due in 1938 because we had not had the necessary preceding boom.

CHAPTER X

A NEW INSTABILITY

Importance of the Trade 'Cycle' Delusion – Belief in its Regularity – Multiplication of Statistics – Growth of Their Study – Disconcerting Contradictions in Inferences from Them – Loveday *v.* Layton – Scepticism Necessary – Owing to Lack of Trustworthy Data – New Influences Increase Bad Effects of Belief in Regularity of 'Cycle' – Change in Investment Fashion – Formerly 'Something to Sleep on' Wanted – Capital Appreciation now Aimed at – – Investment thus Becomes Speculation – *Investors' Chronicle's* Conversation Piece – 'Honest-to-God' Investors – Consequent Sales on Trade 'Cycle' Fears – By Real Holders of Securities – Fresh Cause of Market Instability – Criticism of Stock-Exchange Dealers – Effect on Prices – Assisted by Dow Theory – Trade 'Cycle' Theory Apparently Proved – Thanks to Herr Hitler.

WAS that last chapter merely what St. Paul would call a 'strife of words, whereof cometh envy, strife, railings, evil surmisings'? All that it set out to prove was, that though everybody knows that there are fluctuations in trade, there is no regularity either in their timing or their dimensions, but only a distant approach to regularity, such as does not justify the application to them of the term 'trade cycle', which smacks so strongly of regularity and inevitability. And evidence was quoted from the writings of learned economists, who, while admitting the absence of definite regularity, nevertheless expressed their belief in the cycle. If all this only meant that, in the eyes of a presumptuous layman, distinguished economists have made use of a question-begging epithet, it would hardly have been worth

while to waste so much printer's ink, and reader's patience. But I want now to show that the question is much more serious than that.

In the eyes of the public, and even in those of some economists – did we not see Mr. Harrod arguing that depression was 'due'? – the regularity which ought to be implied by the word cycle is actually part of its meaning. Even on the figures that Mr. Harrod gave, his argument looks a little shaky. He reminded us of the normal duration of the cycle, seven to eleven years from peak to peak, and concluded therefore that since the last peak was in 1929, just nine years ago, according to all the laws of arithmetic we ought to be expecting depression. It might equally well be argued by an optimist, that since there had sometimes been eleven years between peak and peak, and since the last depression had been one of unexampled severity and might therefore be expected to be followed by an exceptionally long period of recovery, the next peak might be postponed until twelve or even thirteen years from the last, and so need not be looked for until 1941 or 1942. In fact, it appears that in this matter of arguing blindly from what has happened in the past, and leaving out of all consideration what may be happening in real life at present, a great deal depends on which set of figures the controversialist may happen to select. At least, a paragraph headed 'Chartists Challenged' in the *Financial Times* of April 25, 1938, related that while disclaiming any faith in the 'pretty charts made up by economists and statisticians', a stockbrokers' fortnightly review had thrown out a challenge to the chartists. Examination of the

'absurd-looking lines that wander across the paper like a drunken spider' had shown the writers that the culmination of previous booms was in 1889, 1899, 1909, 1919 and 1929; so that 'if 1939 is not a boom year it will upset everything that has happened for the last fifty years'.

Unfortunately, most stockbrokers do not approach the figures displayed for them by the chartists in this spirit of inquiring scepticism, or with sufficient allowance for the terribly untrustworthy tools with which statisticians are compelled to work, thanks to the difficulty of obtaining the necessary data. The multiplication of statistics has been, in recent years, on an enormous scale, especially in America; and they are studied with an earnestness which would have seemed incredible to our forbears. And yet, whether because the data behind the statistics are never quite trustworthy, or because concentration on them blurs that keen alertness to what is happening now, that once gave brokers an uncanny flair concerning market conditions, the behaviour of the security markets on the other side of the Atlantic has lately been disastrous to themselves and to their followers, and to the economic progress of all the world. 'New York,' said a London broker who had just been there in the spring of 1938, 'is stiff with statisticians and stuffed with stone-brokes.' And there is another danger about the use of statistics. Not only are they in most cases based on figures which have to be taken with a certain amount of reserve; but even when we have every confidence in them, it seems to be possible for two different experts, entirely conscientious and disinterested, to draw from them

quite different lessons. The classical example is given in a review in the *Economic Journal* of September, 1931, by Mr. Dennis Robertson of a book on *Britain and World Trade*, by Mr. Loveday, the head of the economic intelligence service of the League of Nations secretariat. His observations were then compared with those made by Sir Walter Layton, then Editor of the *Economist*, in an article that he had lately published.

'It would be comic', writes Mr. Robertson, 'if it were not so disconcerting, to find what opposite conclusions two authorities so much akin in general outlook on the world as Mr. Loveday and Sir Walter Layton can draw from the same sets of figures. Of the exports of electrical machinery and apparatus, observes Mr. Loveday, the British share was very much lower in 1928 than in 1924, and by 1929 was less than in 1913. "In electrical machinery", writes Sir Walter, "we have kept well abreast of our competitors." "A still more striking example of recent decline . . . is afforded by the artificial silk industry," groans Mr. Loveday; "the British share in the quantity of this product exported by the leading countries was almost cut in half between 1925 and 1929". "In the production of quasi-luxuries," chirps Sir Walter, "we are keeping pace with a rapidly rising demand. . . . Our exports of artificial silk tissues rose from £332,000 in 1926 to £925,000 in 1929". "Others have taken the place which might have been ours in, for instance, the markets for wireless or photographic apparatus . . . etc.", mourns Mr. Loveday. In the production of "diversified and specialized products, the making of which demands a high degree of skill . . . Britain still leads the field",

proclaims Sir Walter, singling out as an instance the supply of photographic lenses to Hollywood. Poor John Bull!' concludes Mr. Robertson. 'No wonder he rubs his head.'

Of course, it has long been well known that statistics can be twisted into almost any meaning by those who are unscrupulous enough to make a selective use of them for political or other purposes. But the example given by Mr. Robertson, of different conclusions reached by like-minded and perfectly honest inquirers is, as he truly says, too disquieting to be funny.

The cult of charts and statistics, however, has evidently come to stay among stockbrokers and financial journalists, and Professor Robbins has told us that the banks now have 'a menagerie of tame statisticians in the cellar'. As long as the limitations on the conclusions to be drawn from the available data are sufficiently recognized, this is certainly a development to be welcomed. If it may seem to have added a few more discords to the inharmonious chorus chanted by the Wall Street market, this, we must hope, is only because the use of this fascinating instrument is comparatively novel, and because the instrument itself needs a good deal of tuning up before it is brought up to concert pitch. In this country, certainly, there is room for a very great deal of improvement in this respect. Mr. Keynes, in an article in *The Times* of September 13, 1938, charged our authorities with 'criminal' action in the matter of the slowness and reluctance with which they supply statisticians with their necessary tools, especially with regard to building operations.

All this study and investigation would be all to the good, if it were not for three comparatively new influences, which have meant that the false and timorous conclusions drawn, especially from the belief that the alleged trade cycle is really a cycle, moved with inevitable regularity by some inherent fact in business life, produce definitely restrictive results on enterprise. These new influences are (1) a change in investment fashion, which has converted a large number of people, both investors and investment advisers, to a new theory of investment, which it is difficult to distinguish from speculation; (2) the growth of speculation on the part of ignorant members of the public, and its intrusion into the commodity and metal markets; and (3) the development of a belief that the stock markets are a trustworthy barometer of the future course of industry.

It has always been difficult to draw a hard and fast line between investment and speculation; but I think that most people whose memories of these matters go back as far as mine, will agree that fifty years ago or so the investor was generally a person who bought securities for income, put them away and did not bother his head concerning any fluctuations that might happen in their prices unless some sudden shock called his attention to them. 'Something that one can go to sleep on' was this old-fashioned investor's notion of the kind of security that he preferred to hold. He had, presumably, been trained in this sentiment by the comfortable behaviour of the 3 per cent. Consols, which in those days formed the bulk of the British debt and were the security most beloved by prudent folk who liked their holdings to be a soporific rather

than a brain-storm. In Mr. Joseph Kitchin's well-known Trade Cycles Chart the yield on Consols, which, of course, varies exactly with their price movement, is seen marching steadily across the picture from 1847 (when it went a shade above 3½ per cent. owing to a 'railway mania panic' involving a suspension of the lately introduced Bank Act) until 1888, always between 3½ and 3 per cent. In 1888 Mr. (as he then was) Goschen brought in his famous conversion scheme, after which the price of the stock continued to rise until 1897.

With the premier investment always comparatively steady – even in 1866, the year of the Overend and Gurney crash, the variation in its price was less than six points – and with a rising tendency on the whole, it is small wonder that investors developed the habit of 'sitting tight' on their holdings and looking upon them as a source of trustworthy income, to be treated as such and left respectfully alone.

In these times, the wind is very much on the other cheek. 'Investment for appreciation' is the popular slogan, and the investor is one who looks for profits out of market movements quite as much as, if not more than, one who buys securities for the income that he expects to get from them. Many examples might be quoted in proof of this assertion. One of the most striking I culled from the pages of the *Investors' Chronicle*, a highly respectable and much respected City weekly, by no means a paper that serves out tips for the 'get-rich-quick' public, but a serious investment journal. In its issue of July 31, 1937, it had an article headed 'Conversation Piece: London and New York', which

described a talk between an Englishman and an American in a Paris bar, where they were exchanging experiences and drinks. They 'quickly discovered that they had one thing in common – they had been mugs together this year. The American mug had gone into the market in February – just in time for the last little rise in March – and had seen the market fall 15 per cent. in three months. The British mug had plunged rather heavily in January, and had suffered a 12 per cent. fall in industrials and a 25 per cent. fall in gold shares – indeed, 40 per cent. on some unlucky Kaffirs'. After a long and amusing exchange of views on prospects and politics, the conversation ended with, from the American, 'I wish you luck, but I bet you five dollars that as soon as you jump in the market something will happen to depress you again – like a fall in your Government bonds on bank selling'; and from the Briton, 'Right, and I'll bet you five dollars that you hit Wall Street on the wrong swing'. And 'the two mugs toasted each other in complete confidence that each would win his bet'.

Now, of course, there is nothing new or startling about conversation of this kind, which is just what might have been heard any time during the best part of a century, wherever folk have met who like to chase profits by gambling in securities. What is interesting, and perhaps rather portentous, is that this article, appearing in an investment paper, relates that this exchange of views occurred, not between unfortunate speculators, but between 'two plain, honest-to-God investors'.

If this is really a correct description, in these times,

of gentlemen who would once have been regarded as pure speculators, it would seem that we now have to look on the Stock Exchange more as a Casino in which 'mugs' may amuse themselves by throwing their money away, than as a market in which prudent people who have saved money may place it for the benefit of themselves, their families and the capital requirements of the community.

Just one other example of a tendency which is so common and so generally recognized that it really needs no demonstration. From a weekly circular issued by a popular country broker, we gather that 'the private investor should be like Pharaoh of old – preparing for the lean periods ahead during times of plenty. That is to say, if he is wise, he will take care during periods of rising security prices to cash in part of his profits in the hope of using them again when markets have dropped and prices look more attractive'.

Advice of this kind was, to my knowledge, given by many brokers to their clients towards the end of 1936 and in the early months of 1937, when talk began to be heard about the imminence of slump. This fear was caused by the delusion about a trade cycle, and the belief that we had been indulging in a boom, whereas, as we saw at the end of our last chapter, we have Mr. Keynes's authority for the view that we had only been enjoying quite moderate prosperity. And the natural effect of this advice was a stream of selling orders which produced a quite anomalous state of affairs. Companies continually turned out excellent reports and paid higher dividends, while their shares dwindled in price, and the wiseacres were

saying, 'This fall in security prices is an infallible sign of serious trade recession and a slump that may equal the horrors of 1931 and the following years; for Stock Exchange people have access to inside information; they know when the big industrialists begin to sell, because their companies are not getting orders as fast as they were. It is high time to make oneself liquid, to take profits while they are still there to be taken, and have money in hand, so as to be able to take advantage of the slump when it comes'.

If this theory were true – of the infallibility of the stock markets as a barometer of general business prosperity or depression – then the rise in security values between 1921 and 1929 would have heralded an even greater expansion in trade and business than that which it accompanied. Whereas, in fact, it was the prelude to a depression of outstanding magnitude. But belief in the theory seems to be wide enough to have a considerable effect on the sentiment of business organizers and on their expectations of profit-earning.

And so, while trade was still quite active and promised to remain so, if the politicians and Governments had given it a chance, and if the chorus of croaking raised by the trade cyclists had not drowned all the other noises of the market-place, business was pronounced to be in a shrivelling and invalid condition, just because a new technique of so-called investment was teaching investors to convert themselves into speculators, looking for profits through market fluctuations.

These vaticinations of the 'dismal Jimmies', as they were called at the time by Mr. Chamberlain, had their

due effect on the minds of the industrial leaders, inducing them to curtail operations and to be chary in their purchases of materials, so reducing the buying power of producers and setting up that vicious circle of depression which is so difficult to reverse when it once begins to spin.

Hence it was that a thoughtful economist accused me, quite wrongly, of having helped to introduce what he called, quite rightly, a 'new element of instability' into the structure of business. 'You people', he said, 'who teach the public to invest, as you call it, with a view to capital profits, are undermining the stability of private enterprise, which was already staggering under quite enough causes of dizziness.'

I hastily disclaimed any responsibility for the new-fangled investment fashion having, in fact, been doing my best to further, through the unit trust movement, the time-honoured system of buying good securities for the sake of the income returned by them and holding them, in the belief that, if they were well selected and well diversified, they will, over a period of years, justify one's confidence in them. But my friend's charge against the preachers of the new doctrine was only too well founded.

It was the cause of the steady flood of selling through 1937, which was so surprising in view of all that we had lately been told about the very moderate volume of speculative commitments that then appeared to be open. The account carried over in the Stock Exchange was, we were continually assured, almost negligible in comparison with its dimensions in former times; and though the Stock Exchange often

complained that control over the speculative account had been taken out of its hands owing to the growth of the practice of buying and carrying securities on money borrowed from banks, the bankers were also emphatic in denying that their customers were indulging in this diversion to any dangerous extent. Mr. McKenna, in his speech at the Annual Meeting of the Midland Bank in January, 1937, gave convincing figures in proof of this contention.

But the stream of selling which did so much to upset security markets was coming from real holders who had bought stock with their own money, and had no reason to sell it except their belief in the doctrine of the trade cyclists, and the anticipation that the depression in trade, which they were doing so much to promote, would enable them to buy it back cheaper some day. These sales, added to those of speculators, had a devastating effect. Markets were already quite vulnerable enough, owing to shocks inflicted on them by the gold scare, which had knocked the bottom out of Wall Street's confidence, followed by Mr. Chamberlain's ill-conceived National Defence Contribution which, as originally planned, would have inflicted an enormous amount of unnecessary trouble and expense on industry, and imposed special fines on development and expansion of enterprise. And so that dreary period ran its course, in which the unfortunate Stock Exchange dealers were accused of failing in their duty to the public, because they put prices down in self-defence and did not see their way to taking stock on their books, as – it was alleged – the great merchant dealers of a former age had been wont to do in times of

difficulty. How could they, when they already had quite as much stock on their books as they wanted, and when estate duties and the terrific level of after-war taxation made the capricious business of stock-jobbing a game in which losses were at least as plentiful as ever, and gains, if and when secured, had to pay heavy tolls to meet the exactions of Somerset House?

It may be objected that these sales of real stock after a rise tend to 'slice the top off' the rise and so give stability rather than instability to markets. But this would only happen if they began before the market had turned. More often, I think, they only start after the downward movement has begun and then make it much more intense and prolonged than it would have been if it had been produced solely by realizations by pure speculators.

Much less harm would have been done if the speculating investors had been encouraged by their advisers to take profits by repurchases; but the boom and slump belief had become so strong, and political affairs had begun to look so ominous, that conscientious brokers who had advised their clients to turn their securities into cash often checked them when they felt inclined to turn the cash back into securities. And so idle money was piled up, and security prices dwindled. A broker friend of mine informed me with pride how often he had told clients who wanted to buy that they had better wait, because the end of the fall was not yet in sight, and how right his advice had been proved to be by the subsequent decline. I ventured to point out, that by giving this advice he and others of his kind had helped to produce the fall

by robbing markets of support, and so making industrialists more nervous than ever; but he was, of course, quite unconvinced.

As to the effect of all this unnecessary selling and the relative instability that it inflicted on the stock markets, one comparative example will suffice. It has been recorded that in the year of the Overend crisis, the worst, perhaps, that had until then been inflicted on the City, the variation in Consols, then the favourite holding of investors, was less than six points. (It is also interesting to mention, as showing how remote an area the City then was, and how little its troubles were noticed by our rulers, that Mr. Gladstone, opening his Budget on May 3, 1866, the day on which Bank rate went from 6 to 7 per cent. – a hair-raising rate even in those days – 'merely expressed his disquietude about the exhaustion of our coal-fields in the twentieth century. He uttered no word concerning the crisis then incumbent over the City', as we are told by Ellis Powell in his *Evolution of the Money Market.*) In 1937 – a year in which no business crisis was even in sight, except to eyes quickened by disordered imaginations – Consols, now almost a gambling counter, backed and buffeted by domestic and foreign speculators on monetary and political grounds, ranged from $84\frac{7}{8}$ to $73\frac{1}{8}$, a variation of nearly twelve. As to ordinary shares, 'for the first time since 1931', said the *Economist* in its issue of January 1, 1938, 'ordinary share prices declined last year, almost uninterruptedly, and finished with a net loss of $18\frac{1}{2}$ per cent. The actual fall in many leading issues was much greater'. And this in spite of continued good business, as the same authority tells

us. 'The most striking feature of the past year has been the disposition of the market to make its downward adjustments quickly – so rapidly, indeed, that prices were discounting a considerable trade recession a few weeks ago, while our Index of Business Activity was still advancing to new all-time high levels.'

If this exaggerated fall had only affected security holders it would have been quite unfortunate enough. Its really devastating consequence was its effect on the sentiment of industry, owing to the prevalent belief that the stock markets know what is going to happen to trade.

Another ingredient in this witches' cauldron of stock-market instability was an ingenious American invention known as the Dow Theory. It, as far as I can make out, works on the conviction that market movements roughly repeat themselves, and that if the average of prices falls below or rises above a certain level, past experience demonstrates that the movement is going to continue. It thus appears to regard the present behaviour of prices as the paramount influence on future history, leaving out of consideration any events, external to markets, that may happen to affect them. In this respect it seems to resemble the vaticinations of the cyclists and chartists who, obsessed by their pictures of the past, decide that they must necessarily repeat themselves in future. It may be that I have misunderstood the Dow Theory; for I have found most of its literature more bewildering than illuminating. So let us hear an example of its exposition from Mr. C. B. Ormerod, one of its most authoritative preachers on this side of the Atlantic.

In an article published in the *Financial Times* of July 7, 1938, illustrated by a chart displaying London–New York market trends, he said that 'the graph shows clearly the spectacular nature of the last two weeks' rally on the New York stock exchange. . . . The averages represent a barometer of future market conditions. The tremendous advance since mid-June points to a far more than seasonal improvement in business in the autumn. It means that Americans (and non-Americans) are rapidly modifying their fears of war and revising their apprehensions of domestic difficulties. It means that inventories are wearing thin and that stocks are running low: that pump-priming will succeed, at any rate temporarily, and, most important of all, that the freezing psychology of fear is being thawed into hopefulness'.

In this case, the Dow Theory sings a joyful tune. A tremendous advance in security prices means, not merely that a number of people have seen fit to buy them, but that there will be a big improvement in business and that 'pump-priming' – Mr. Roosevelt's programme of lending and spending – will 'succeed, at any rate temporarily'. In the previous period its tune had been equally emphatic on the side of depression. Of it and of its exponents one must speak with all the respect due to people who are alleged to have secured two millions of followers in America and many on this side of the Atlantic, for which a special version of it has been devised; and to have secured them by the fact that it has proved itself practically right more often than not. For our present purpose its chief importance lies in the tremendous weight that this

following gives to its indications, and the consequent instability that it has helped to inflict upon security prices, and so on general business, in so far as it accepts them as a trustworthy barometer.

Small wonder that security prices are beginning to be looked on with doubt, as an indication of the value of the concerns which they are supposed to assess; and that we find, for example, Sir Miles Mattinson, Chairman of the United States and South American Investment Trust, saying in his speech to shareholders on April 28, 1938, that 'in view of the importance in the public interest of some accuracy in regard to market values, it ought not to be possible for the offering of a few thousand pounds of some unwanted stock, as happened in some cases, to have an almost astronomical effect upon the market value of the quoted securities of a company with perhaps a million of capital'.

And the worst of it is, that the trade cycle delusion and the croakers' chorus which tells us, whenever we have been prosperous for a spell, to stand by for an inevitable slump, will, apparently, have been proved to be right by the course of events. Political quarrels in America gave business confidence there a fresh fit of the 'jitters', which lasted until the adjournment of Congress in June, 1938. The consequent sickness of the commodity markets affected world trade, already enfeebled by two wars and fears of another on a much bigger scale, due to the growth of apprehension in Europe, culminating in Germany's seizure of Austria and subsequent dismemberment of Czechoslovakia. This weakness of world trade inevitably hit our export

industries and so our general purchasing power, and produced quite enough recession to enable the croakers to feel how right they had been and how truly the trade cycle had proved itself. In fact, the recession was entirely a politically created nuisance; for its very moderate extent, and the fact that British industry, in spite of all these adverse influences, was able to mark time at a level well above that of 1935 during May to August, 1938,[1] shows clearly enough that, if business had been left in peace by the politicians and warmongers, it would have proved that the supposed inevitability of slump, owing to some inherent weakness of our economic system, was a mere bogy of the theorists. As it was, Herr Hitler came gallantly to the rescue of the croakers.

[1] 'The *Economist* index of business activity, which takes the level of 1935 as 100, was 102 in May, 103 in June, and 102 again in July. The new figure for August is 102½' (*Economist Trade Supplement*, September 24, 1938).

CHAPTER XI

A STEADYING INFLUENCE

Real Investors Who Stick to Their Securities – Does Speculative Investment Pay? – The Holding Policy Proved to be Sound – An *Economist* Chart of Ordinary Share Prices – Its Triumphant Upward Trend – Through Years Packed with Disasters – The Fundamental Cause – Reserve Fund Policy – Other Reasons – Spread of Risks Necessary – Provided by Investment Trusts and Unit Trusts – Pure Speculation's Increase – Speculation's Benefits – And Nuisance – Effects on Business – Review of the Four Periods of Progress – Undefeated Elasticity of Enterprise.

In our last chapter it was shown how a change in investment fashion, by introducing the search for capital appreciation, had turned investors into speculators and created a new instability in the security markets, subjecting them to sales by real holders, who were tempted by apprehensions of a possible slump to take profits, turn their stocks and shares into cash and wait for a chance of getting in again at lower prices when the slump made its appearance.

It is impossible to say how far this tendency has affected the great body of investors. It is likely enough that one hears so much about it in the City and sees so much about it in the financial papers and the City articles of the ordinary dailies, that one may have exaggerated the extent of its penetration. It has been shown during the recent period of stock-market depression by the experience of the unit trusts (as to which

more later) that there is still a large body of investors who prefer the old system, proved by practical results to be the best, of buying a well-selected and well-diversified holding of securities and keeping it, refusing to be tempted, because they may have risen, to dispose of them in the hope of buying them back cheaper some day.

What one can say with certainty is, that there was enough selling by real holders, acting under the inspiration of the cyclists, to depress markets seriously at a time when dividends and results were favourable, and when it had been continually asserted that the open account was so small that nothing in the way of realization need be feared. Perhaps, as things turned out, it was as well that this selling happened when it did, with the result that later on, when Austria and Czechoslovakia became causes of acute apprehension, the Stock Exchange was able to face a dangerous situation with dignified calm.

Whether this new policy of investment-speculation will pay those who have cultivated it remains to be seen. It will depend, of course, on the length of time during which they have left their money lying idle and earning them almost nothing, at their banks, and also, as need hardly be said, on the prices at which they sold and those at which they get their stock back again. They will also have to allow for the substantial charges which they will have had to meet, both on selling and repurchasing, in the way of brokers' commissions, jobbers' 'turns' and taxation in the form of stamps. It seems most likely, when all these items on the debit side have been met, that the new form of

investment will have given some benefit to brokers, dealers and the public revenue, little or none to the new-style investor, and inflicted a good deal of harm on stock-market stability and the business of the country.

Before we leave this subject, however, I owe the reader some proof of my assertion, that practical experience has confirmed the soundness of the policy of acquiring a good selection of well diversified securities and keeping them. The most recent and striking testimony in favour of this doctrine is to be found in an article in the *Economist* of June 25, 1938, headed 'Who'll Buy Equities?' (It may be as well to explain that 'equities' is a word now commonly used for ordinary or deferred shares and stocks, the holders of which take any profits left after wages and all other charges have been met, and such sums as may seem necessary to the directors have been put to reserve funds; if there is nothing over after all these prior claims have been provided for, the equity holder gets no dividend.)

In this *Economist* article, two charts showed the course of industrial ordinary share prices, first from 1908 to 1938, and then from 1867 to 1938. On the first one is shown (1) the average annual figures, for the past thirty years, of ordinary share prices, taken from a special memorandum of the London and Cambridge Economic Service; (2) a ten-years moving average of these figures; and (3) a dotted trend line. The average annual figures in line 1 is a series of wide zigzags, with a continually upward tendency until 1936; the ten years average shown by line 2 is a slightly

wavy upward line and the trend line goes upwards with a straight slant.

Commenting on its picture, the *Economist* points out that 'within this chart, in brief compass, is an epitome of all the arguments for long-term ownership of equity shares. During the last thirty years, despite the Great War and its legacy of economic difficulties and crises, ordinary share values have appreciated on the average by no less than $3\frac{1}{2}$ per cent. per annum'.

Certainly, there could hardly have been a time in which they could have been more severely tested – the biggest war that ever happened, followed by after-war boom and slump, the struggle back to the gold standard, a general raising of tariffs and creation of new trade barriers, a coal strike and a general strike, the fall of the pound, bankruptcy running riot through Central Europe, Continental politics combining with the collapse of America's mad Stock-Exchange boom to give yet another shake to the tottering edifice of business, wars in Abyssinia, Spain and China, piracy in the Mediterranean, 'grim' British budgets followed by a £1,500,000,000 armaments programme. Through all these terrific shocks the ordinary shareholder who has sat tight, undismayed by wild intermediate fluctuations, has seen his shares never falling below the average of 1914, and even in June, 1938, after a rapid fall since the end of 1936, not much below the price that they touched in the Stock-Exchange boom of 1929 and worth twice as much as they were in 1914, when the troubles began. This behaviour of a group of representative shares can hardly be beaten as an argument in favour of the

safety of the law of averages, rather than attempts at ingenuity in guessing at the course of markets, as an investment guide.

I should mention, however, that the second chart, showing the course of equity prices from 1867, indicated that the rise in them, in the half-century before the war, was much less rapid – a mere 1 per cent. per annum or so – being held back by the downward tendency of commodity prices. As to the future, against the alleged probability of declining, or at least of no longer expanding, populations in Britain and other western countries, we can set the progress of new inventions, improved organization, and, we may hope, better distributed wealth, as likely to cause a further rise in national income and so in business prosperity. Summing the matter up, the *Economist* concludes its article by saying that 'even if the long-term trend of share prices fails to maintain indefinitely the exceptionally rapid upward course of the last thirty years, its general direction is still likely to be favourable'.

Lest I should be charged with following the fatalistic tendency, of which I have ventured to accuse some economists and statisticians, of assuming that what has happened before will necessarily happen again, I can claim to be able to show clear and definite reasons why what happened did happen and why it should happen again. This *Economist* chart is only a specially striking and up-to-date instance of many proofs that have been given from past experience, both here and in America, of the rising tendency of equities. And this discovery, first demonstrated by Mr. E. L. Smith,

an American inquirer, in his book called *Common Stocks as Long-term Investments*, led to investigation of the cause which was continually acting as a lever to raise the prices of ordinary shares. This cause Mr. Smith promptly found in the practice of all prudent boards of well-financed companies, never to distribute the whole of the profits in any year, but always to keep back part of them and invest them, either in the development of the business or in other directions. The effect of this policy is, that the capital assets, and with them the income, of the concern continually grow, and its shares become more valuable.

It need hardly be said that this policy is not enough in itself to secure rising values for shares, unless the actual business is being conducted on prosperous lines – no amount of prudent financing will save a company that is lacking in good technical management. But, granted this very important proviso, the continual strengthening of the capital assets is bound to secure growth in earning power and a consequently higher value of shares in the market.

Mr. Smith based his demonstration of the superiority of ordinary shares over fixed-interest securities, on American experience extending over various periods, marked by the violent fluctuations prevalent in the United States. Results of a similar investigation with regard to British securities, again showing remarkable growth in the value and earning power of ordinary shares, were produced by Mr. Raynes in a paper read in November, 1927, to the Institute of Actuaries. He also pointed to other reasons for the greater respect with which such investments, once regarded as too

speculative to be considered by prudent people, are now looked upon by experts.

These were, the consolidation of industry and commerce into large units, which are thus able to deal advantageously both as buyers of materials and as sellers of their product or service, the consequent saving on overhead charges and economy in administration, and the much higher degree of intelligence and research that is now applied by business organizers to the problems of production and trade.

With these advantages in their favour, good industrial and commercial ordinary shares can claim not only to have explained the reason for their advance in the past, but to justify the confidence of those who expect it to continue, not merely because it has happened, but because the reasons for its happening are both practical and logical, and are also likely to exert the same influence in future, if mankind will have sense enough to give more attention to increasing its comfort and less to quarrelling and mutual destruction.

But all these investigators laid stress on the need for diversification of interest, by means of a well-spread holding. Any ordinary share, by itself, necessarily contains too strong an element of risk, to allow a prudent investor to put his all into it alone; and the safeguarding shield of the law of averages can only be secured by those who hold not one but many. By the development of the Investment Trusts, this necessary diversification has long been available and it can now, thanks to the Unit Trust movement, be obtained by investors of quite moderate means, with convenient conditions of purchase and realization of their holdings.

By encouraging, and even to some extent creating, this new class of real investors, who have not only stuck to their holdings but steadily increased them throughout the recent demoralization of the security markets, the Unit Trust movement, even at this comparatively early stage in its development, has done something to offset the effect of the doctrine of chasing after capital profits by trying to anticipate market fluctuations. It will be interesting to see which of these influences will prevail; but it may be noted that the London market for securities showed, during the recent period of demoralization, much greater steadiness than New York's.

As to pure speculation, of the old-fashioned kind, on a much wider scale than of yore, this, of course, is only an exaggeration of a tendency that is as old as markets and in fact as old as human nature. The gambling instinct is strong in nearly all of us, and seems likely to endure as long as it has any chance of being exercised. Without it, business progress, as the business world is at present organized, would be seriously checked. If nobody ever took a risk in the hope of exceptional profit, the development of new inventions and devices would cease, and if nobody speculated in the security markets, the freedom of dealing would be curtailed and real purchases and sales would be made more difficult and costly. In the commodity markets also, dealings in 'futures', which are facilitated by the activities of speculators, are a necessary safeguard for genuine users of materials, who are by them enabled to cover themselves against the risk of a fall

in their prices during the process of manufacture – the bootmaker who has bought leather and can sell it for future delivery thus insures himself against the risk of having to sell his boots at a lower price than he had anticipated, because when they are ready for sale, his competitors are able to buy leather more cheaply. In that event the profit that he makes when he closes his forward sale by repurchase, is an offset against the loss, or reduction of profit, on his manufacturing effort.

When all this has been said on the benefits produced by speculation and on its necessity, in the sense of enterprise and venturing, to trade progress, it must be admitted that, in its more ordinary sense, of the efforts of an uninstructed public to get rich quick by gambling in markets, it is often a nuisance and an added source of instability.

In May, 1938, the dreary dullness of the Stock Exchange was relieved for a few days by an outburst of speculation in a share called Western Holdings. Its course and consequences may be traced in two newspaper cuttings.

In its issue of May 27, the *Financial Times*, under the heading 'An Investor's Note Book', told us that 'the West End is already beginning to benefit from the past fortnight's growing volume of orders, of which the Holdings boomlet has admittedly been the mainspring. Restaurateurs are very grateful, especially those who helped themselves to Holdings a week or so ago. Two brokers independently mentioned to me that the managers of a couple of well-known restaurants had remarked to them overnight that they had served

more customers than at any time since Christmas and that the cabarets were also doing well. . . . It was prophesied to me last evening that provided the Stock Exchange activity persists we shall see a jump in motor-car sales next month. Retail trade in the West End should also revive, with pleasing repercussions for wholesalers throughout the country'.

Four days later, on May 31, the *Daily Herald* recorded that 'City typists and provincial housewives, tempted into the Great Gold Gamble by dreams of easy money, were hard hit yesterday when Western Holdings shares slumped 7*s*. 4½*d*. in six minutes. . . . Many City typists had hoped that a quick gamble would pay for their holidays'.

In this case, when it is only a matter of an upward rush, followed by collapse, in a Stock Exchange security, the consequences may be tragical for the unfortunate gamblers who made a wrong guess, but there was no direct bad effect on real business; in fact, business of a kind was shown to have been given a temporary fillip. But a community or a part of one, that needs gambling profits to make it happy, leads a precarious life, as was shown by the effect on America's prosperity and on the trade of all the world, of the collapse of the Big Bull Market, noted in Chapter VI. It may also be noted, that while all through the recent reaction in business, retail trade, marking the demands of the consuming mass, continued to advance throughout the country, it lagged in central and western London, presumably reflecting the absence of the stock market stimulus.

Gambling in commodities has a more evil effect.

When speculative buying of the materials of industry rushes their prices up, those who have to use them in industry are hustled into making more than full provision for their probable needs; and, if reaction comes, find themselves saddled with superfluous supplies, bought at prices that had been artificially inflated. During the rapid rise in commodities in the autumn of 1936 and the spring of 1937, much was heard of the extent to which outside buyers were helping themselves to holdings of metals, rubber and other materials; and a pleasant story was current to the effect that the whole existing stock of spelter was owned (mostly on borrowed money) by the members of a West End club, not one of whom knew what spelter was. But there is no need to exaggerate the extent of this outbreak, new and disturbing as it was. Mr. C. V. Sale, presiding at the meeting of the Amalgamated Metal Corporation on April 29, 1938, said that speculation of this kind had been 'unduly magnified' by Parliament and the Press, and had been 'of minor importance in the play of greater forces'. No doubt he was right. But these minor influences can sometimes be a very tiresome nuisance to those engaged in real business.

Looking back now over the ground covered, we have surveyed four periods of progress. In the first – the pre-war century (very briefly treated, as being already an historical epoch) – comparative peace, comparative freedom of trade, stable rates of exchange and a well-fed international capital market produced a momentous general advance. In the second, war called for an immense effort, strong enough to furnish

enormous armies with unparalleled prodigality of weapons and supplies and yet, for a time, to raise the general standard of life. In the third, enterprise struggled out of war-time's dislocation into fair prosperity, hindered by a great growth of trade barriers and the bad effects of a bad peace, but helped by international lending and the restoration of stable rates of exchange. In the fourth, Britain, having been forced off the gold standard, led the way in a recovery which was, in most countries, chiefly internal; because the international capital market had been killed and commodity prices did not give enough purchasing power to the primary producers. This recovery was checked by political fears and threats in America and in Europe, and by the development of a defeatist atmosphere fostered by delusions about a trade cycle, and of a new technique of speculative investment, which demoralized the stock markets and undermined the confidence of industry.

But we have noted how invariably, whenever politics and prophets have given it a chance, enterprise has gone forward, spurred by man's undefeated eagerness to produce and trade and consume.

CHAPTER XII

BUMPS AHEAD?

Economists Anticipate a Future Marked by 'Bumpiness' – Owing to Three Basic Facts – (1) Dependence for Prosperity on Durable and Costly Instruments – Which Leads to Concentrated Industrial Control – Need This Mean Instability? – And has It Come to Stay? – Immense Potential Demand for Durable Goods – (2) Check to Growth of Population – Against which We can Set Growth of Demand – Especially if the Ill-fed and Ill-clad can Acquire More Buying Power – Over-Production no New Thing – Carlyle as Witness – Professor Ohlin Denies Surplus of Commodities over Needs – (3) Westward Shift of Economic Power – America's Dominant Position – Professor Condliffe on Her Advantages – Her Change of Trade Policy – And Probable Influence on the Side of 'Bumpiness' – Her Past Form Favours This View – Mr. Keynes on 'Truly Frightful' Fluctuations of Past Ten Years – The Floundering Whale – Will It Steady Itself?

TRYING now to peer into the future, we find that apart from the psychological instabilities, as they may be called, mentioned in our last chapter, other features in the outlook are thought to promise that the coming course of business will be marked by a certain 'bumpiness'.

This expressive word is taken from Mr. Dennis Robertson's lucid introduction to an illuminating symposium on *The World's Economic Future*, composed of contributions from Mr. Loveday and Professor Condliffe, Professors Ohlin and Heckscher of Stockholm and Señor de Madariaga, a brilliant political

writer and late representative of Spain on the League of Nations Council.

First among the three basic facts on which this expectation of bumpiness is based, is our increased dependence for prosperity on durable and costly instruments and equipment, capable of satisfying demands through many years when once provided and set to work. This 'prominence of the fixed capital instrument, capable when once created of satisfying demand for many years' is said to have made economic progress more discontinuous and the tenure of opportunities for employment more insecure. Why this should be so is not altogether clear. It has certainly brought about the greater concentration of industrial control, as has been seen from the continued growth in the size of the companies and firms which carry on the work of production and distribution; but this development might surely be expected to lead to more steadiness, owing to the wider horizon viewed by the larger organizations and their consequent ability to fit production to demand more readily than the smaller and more specialized units which they have to some extent superseded. Nevertheless, the fact remains that bumpiness is most apparent in the fortunes of the industries that make capital goods – factories and equipment for them, instruments of transport, etc. They are busiest in times when trade is active and industry is full of confidence in the prospect of profit and so expanding its plant, and naturally quietest when the going is not so good. What are called the 'consumption goods industries', that make and deal in the necessities and comforts that the consuming public

needs and desires, have a much steadier outlet for their products.

It may be noted, however, that this tendency towards concentration in large units may not have come to stay, as its persistence through several generations might lead one to expect. Professor Ohlin points out that it seems to be easier now than it was formerly, for small technical units to work effectively, thanks to the development of automatic machinery on a smaller scale than was once possible. Small but economical electric motors have tended to reduce the working costs of small-scale production; while the motor-lorry has widened the scope of the more diminutive units and lowered their cost of transport more than it has for the big enterprises, which could choose a position on a railway, and furnish themselves with the necessary sidings. It is not safe to lay too much stress on this development, confirmed as it is by statistical evidence, which tells us that in several countries the number of small firms has been, since the war, growing even more rapidly than that of the great enterprises; for many of these small firms are in fact only appendages of the big concerns, to which they sell parts of the machines that their large customers assemble and complete; and an important fact that handicaps the small concerns is the difficulty and high cost that they have to face if they find it necessary to raise capital by public issue. Nevertheless, small units built up by individual and family management are a most useful element in the business outfit of the country, providing adaptability and enterprise that are sometimes said to be lacking in the big concerns; and plenty of examples

have been shown of their growing into substantial industries, having been financed entirely out of profits retained and reserved for development.

But all industrial units, big or little, can only flourish when they can earn profits; and the fact that capital goods last and go on doing their work, should not necessarily mean that those who produce them are specially subject to fluctuations in their fortunes, as long as there are still immense fields in which capital goods, if the inhabitants of the backward countries could afford them, would be of great benefit in increasing production and distribution. It was by this process of providing capital goods where they were wanted, on credit furnished by the industrial countries, that the great forward movement in material comfort of the nineteenth century was secured. This process has now been suspended owing to the results of the war, with its rank crop of defaults, general international mistrust, and expectations of another war on a scale that will destroy civilization. As long as these are the conditions among which industry has to work, bumpiness will be its portion; but if those who are working for appeasement can carry the day, and goods and capital can flow across the frontiers with some approach to the freedom with which they moved when the world was comparatively sane, one cause of bumps will have been destroyed.

A second cause of fluctuation in consumption is the check to the growth of population. As Mr. Robertson pleasantly puts it, 'demand turns away from the bread and butter which little Tommy is only too obviously ready to wolf day by day, and the stockings which he

has only too obviously worn out, to the motor-car and the gramophone which Papa and Mamma must save for in the first instance, but which, once bought, can be made to do another year. Problems of excess capacity develop, on a scale unknown to the expansive nineteenth century, and call for centralized handling'.

Here, again, it is possible to interpose a deferential note of interrogation. In the first place, is it certain that the check to population is as inevitable as some of our fatalistic statisticians seem to assume? That the numbers of the Western nations will grow as they grew in the nineteenth century is indeed unlikely, thanks to the invention of methods of control which have relieved married women of a burden of almost continuous pregnancy which was inflicted on so many of them. But we have yet to see, if we ever shall, how far the recent check to child-bearing has been due to permanent causes, and how far it may have been due to that war-fear nightmare which obtrudes itself into every subject that we discuss. It may very well be that the instinct that makes people want offspring has been repressed by the fear that their sons may be exposed to the horrors of trench-warfare and their daughters to poison gas and high explosives.

But even if we grant that population is bound to decline in the countries that consider themselves most civilized, the expanding demands of more acquisitive and fastidious inhabitants of the world of to-day may, surely, more than compensate for any possible decrease in their numbers. Even in the matter of food, the voracity of a diminished number of youngsters seems to be a comparatively small matter when we

consider it alongside of the damning calculations that have recently been made of the extent to which a large proportion of the populations even of the richest nations is now under-nourished.

As to the United States, an official spokesman of that wealthy country stated at an International Labour Conference at Geneva in 1935, that in 1933 something like one-fifth of America's children were reported to be suffering from poor nutrition. For this country, we have the authority of a paper read by Sir John Orr before the British Association, also in 1935. He calculated, though with all the caution required by the inadequacy of the necessary information, that if the diets of all classes below the economic level of a household of £1 per head per week could be raised to that level at which, on the whole, they are adequate for health, there would be a marked improvement in physique and a reduction in disease. It was estimated, he continued, that there are about 20 millions of the population below this economic level. 'To raise the diet of this 20 million to the required standard would involve an increased consumption representing, at retail prices, about £100 millions per annum. The diet at the 25*s*. per head income level is about an optimum. With such a glut of foodstuffs embarrassing the economists, there is no reason why everyone should not have an optimum diet. To bring all diets up to this generous level would mean an increased consumption of about 20 per cent., representing an increased trade of about £200 millions per annum. . . . This gives an indication of the extent to which agriculture could be developed in this country without

reducing imports and therefore without prejudicing our export trade or the interests of our oversea investments.'

In other words, if our declining or stationary population could only be fed decently – for 'generous' seems hardly the *mot juste* when applied to the diet of a family with an income per head of 25*s*. a week – we should have no need to deplore, as a cause of business uncertainty, the smaller number of children with voracious appetites. And if this is true of this comparatively rich, though not nearly rich enough, country, it is much more so of many others in which most of the inhabitants live in a condition bordering on destitution.

It is the same with regard to clothes. Because a stable or declining population contains a smaller proportion of children, it is argued that the clothes and boots that used to be worn out, and grown out of, so quickly by little Tommy, are no longer wanted, and the money that used to be spent on them goes into durable goods, such as houses, electric power, motor-cars, radio sets and so on. This is no doubt true of those classes which are already adequately clothed and booted. But are we yet anywhere near conditions in which this can be said of anything like the majority of the population? If we could solve the problem of adequate food for all, provided on terms that would not, as adequate housing has so often done, eat into the family income to the detriment of other expenditure, better clothes and boots would provide a steady demand, which in their case would be maintained, not only by lack of durability but also by changes in fashion. This would especially be so with regard to

feminine raiment and footwear. Women of all classes, except perhaps the most extravagantly pampered, would gladly, if they had the chance, spend a good deal more than they do on personal adornment. And quite rightly. For in spite of their successful entry into many activities that used to be closed to them, it is still an important part of their work in the world to add to the beauty and gracefulness of life by decking themselves in bright and varied garments.

Given better distribution of wealth and increased all-round prosperity, the shift of demand from goods which are 'first essential and secondly of short life to goods which are not essential and are relatively durable' may not cause so much economic uncertainty as Mr. Loveday and other learned experts think. And though Mr. Robertson was doubtless correct in saying that 'problems of excess capacity develop, on a scale unknown to the expansive nineteenth century', such problems were, even in that century of rapidly increasing population, considered to be formidable. Carlyle's *Past and Present*, published in 1843, asks, in terms of turgid eloquence, 'what will reflective readers say of a Governing Class, such as ours, addressing its Workers with an indictment of Over-production! Over-production: runs it not so? "Ye miscellaneous, ignoble manufacturing individuals, ye have produced too much! . . . You have produced, produced; he that seeks your indictment, let him look around. Millions of shirts and empty pairs of breeches hang there in judgment against you. We accuse you of over-producing: you are criminally guilty of producing shirts, breeches, hats, shoes, and commodities, in a frightful

over-abundance. And now there is a glut and your operatives cannot be fed!" '

And, finally, before we leave this subject of the alleged problems of excess capacity, due to stationary or declining populations, we find Professor Ohlin refers to the 'erroneous impression, which is always gaining ground during times of poor business conditions, that the world has a surplus of commodities over and above needs'. From which it would seem to follow that, if needs could only be converted into effective demands, all fears of glut would be dispelled.

Third among the basic facts which are put forward by the writers of *The World's Economic Future* as likely to lead to bumpiness in business, is the shifting westward of the centre of gravity, and the apparent probability that it will settle in the United States. In fact, it may be said already to have done so. For it has been necessary in previous pages to lay repeated stress on the overwhelmingly important influence on the prosperity of all other countries of activity or depression in America.

On this point Professor Condliffe's chapter, on the 'Distribution of Power and Leadership', is particularly illuminating. Having sketched the story, familiar to all of us, of Britain's leadership in the nineteenth century, with its gold standard, free trade and railway building with British capital in all the continents, he decides that 'this system is ended. Its great achievements in the sphere of foreign investment and monetary stability have been gravely impaired. Free trade has been abandoned. The rapid increase of population that spread from these islands to the colonies of

settlement and contributed largely to the growth of the United States is slowing up'. He considers, however, that Britain still possesses reserves of power that the whole world recognizes.

But it is not only Britain that is eclipsed by the effulgent beams of the Stars and Stripes. Europe's relative weight in world production and trade also shows signs of declining. This was evidently inevitable. Britain and Europe, having poured men, women and money during some generations into a vast territory bursting with natural resources and free from the feudalisms and racial absurdities that have made Europe a cockpit for centuries, can feel no surprise when they suddenly discover that they have created, as a sort of incidental by-product, a hearty youngster that is as big, from the practical business point of view, as all its progenitors put together.

This fact, which will startle most of us, is put before us by Professor Condliffe on the authority of a calculation made by the Economic Intelligence service of the League of Nations, and embodied in its survey of *World Production and Prices, 1935–6.* To compile an index of world manufacturing production, the relative value of this production was calculated in the leading industrial countries. Data were available for twenty-three countries which between them account for more than 90 per cent. of 'the total value added to raw materials in the manufacturing process in the world as a whole'. The estimate finally reached showed the United States to be responsible for 45 per cent. of the total value of manufacturing production. Next came Germany with 12 and Britain with 10, and no other

country got into double figures. 'The United States manufactured a greater total value than the whole of industrial Europe combined if Soviet Russia is excluded.'

Making all allowance for the weaknesses inherent in statistical estimates of this kind, this result is something of an eye-opener. And Professor Condliffe shows good reasons for expecting that the economic power of the United States is likely to increase. 'She has the inside track with Canada in the north and the rapidly developing countries of Latin America in the south. Across the Pacific she faces the awakening masses of Asia as well as the British Dominions of Australia and New Zealand. Yet she retains the closest connexions across the Atlantic with Europe.' It was, I think, Captain Mahan, the great American writer on maritime affairs, who pointed out the advantage that Britain had enjoyed from being, as he said, 'anchored' off the coast of Europe, and so able to act as the point of entry and departure of commerce between the old and new worlds. This central position between East and West has now passed to the United States, and increases the influence which the wealth of her country and the energy of her citizens have already secured for her.

If only these tiresome people who insist on making wars that do nobody any good would give business a chance, opportunities for opening up the East, and raising the standard of what Professor Condliffe calls 'these great peasant masses of Asia', might call for all the productive power which the industrial nations now command. What England did for a narrower

circle in the nineteenth century, America, with British and European experience and wealth behind her, may do for a much wider and more densely populated world in the twentieth.

As to the use that she will make of this opportunity, the omens speak with contradictory voices. She has lately begun to lend abroad again – to Argentina, Canada and China – and any revival of international lending will be a valuable help to world trade. Professor Condliffe raises our hopes by pointing out that 'by a great act of statesmanship America's far-sighted Secretary of State has reversed her traditional tariff policy so as to adapt her trade to the necessities of her new international situations. It is perhaps not yet sufficiently realized that this break with long-cherished tradition is of first-rate historical importance'; but then he reminds us that 'the passing of economic power to the United States reinforces Mr. Loveday's prediction that the world's economic future is likely to be a bumpy one'.

Judging on past form, as the racing prophets say, made-in-America bumps seem to be a prominent item in the future programme. The crash of 1929–31 originated in Wall Street, though it was effectively assisted and prolonged by the 'Hitler election' in Germany, with its grisly consequences; and the stock-market decline of 1937 was described by the *International Labour Year Book* as having 'bordered on the catastrophic' in the United States, where the industrial recession was also much more violent than here.

As we have seen, stock-market fluctuations affect the

nerves of industry and so the prices of commodities. Mr. Keynes, in a paper read before the British Association in August, 1938, calculated that the average annual price range, over the last ten years, in rubber, cotton, wheat and lead – representative raw materials marketed in competitive conditions – had been 67 per cent.; and added that 'the ill effect of these truly frightful fluctuations on trade stability is great'.

How is the world to fare, with its business leader inflicting these 'truly frightful' bumps upon its badly battered anatomy? This question I asked a very wise and level-headed American friend of mine. He answered, 'I don't know what you're going to do about it; but you've got to make up your minds that this great floundering whale will be thrashing its tail around all the time'. It is not a cheering prospect; but perhaps it is not as bad as it looks. In my next chapter I shall try to dispel certain illusions that are cherished on this side of the Atlantic concerning America's attitude to war debts and other problems. This one is concerned with anticipations of violence in future trade fluctuations, set forth by distinguished experts on the ground of (1) the increased dependence of man on expensive and durable instruments; (2) the check to the growth of population in the West; and (3) the diffusion of economic power, with special reference to its having shifted to America.

With regard to (1) and (2) we have seen reason to feel respectful doubt, if buying power for durable goods can be furnished on credit, as of yore, by the industrial nations to the backward countries, and if the better distribution of wealth enables the large number of

people who are ill fed and ill clad to compensate by their expanding demand for lack of expanding populations. As to No. 3, surely the diffusion of economic power, in itself, is what Capel Court calls a 'bull point'? For it means the diffusion of buying power and also of productive energy, and so should stimulate trade and make it steadier. Other things being equal, the wider the market the less violent its vagaries.

All these frightful fluctuations have been caused, not by any inherent disease in the business body, but by psychological influences – attacks of nerves. The worst of them have been due to after-war bitterness and a, temporary we hope, reversal to barbarism and force politics, which has made the fear of war a constantly recurring cause of depression. But America has provided special causes of its own, with an hysterical stock-market boom and collapse, and since then, with a long and dreary wrangle between Government and business.

We can surely hope, in view of all that the American authorities and public have learnt, that the stock-market boom that ended in 1929 is not likely to be repeated; and it almost seems that Government and business in America are beginning to see that quarrelling is as unprofitable in domestic as in international affairs. As to the war-fear nuisance, there seems to be evidence that one at least of the sabre-rattlers is wondering whether he can stay the course.

CHAPTER XIII

THE WAR-DEBT QUESTION

Americans a Tiresome People Collectively – Like Other Peoples – Their Tiresomeness Conspicuous, owing to Dominant Position and Opportunities Missed – Unfairly Misrepresented with Regard to War Debts – The Balfour Note – Its Ingenious Insinuations – America's Interest in War Much More Remote than Europe's – The American Taxpayer's Point of View – Other Arguments against Paying Our Debt – Money Spent in U.S. – Fall in Prices since Loans Contracted – America's Tariff – The Hoover Moratorium – Weakness of These Contentions – Continental Opinion – 'Uncle Shylock' – American Irritation – Spectacle of British Prosperity – Income Tax Reduced in Year when Default First Made Definite – British Government's Plausible Note – Honest Debtors Pay – Settlement Expected – Will Bring Little Benefit, if 'Uncle Shylock' Delusion still Cherished.

As a people, the Americans are exceedingly tiresome. Just as tiresome, in fact, in their different way, as the Germans with their clumsy aggressiveness, the French with their affectation of injured innocence, the Italians with their claim to be descendants of Imperial Rome, the British with their pose as disinterested peace-lovers, having got all that they want out of wars in the past, and so on. But behind this appearance of general collective unpleasantness lies the comforting fact that the average decent American, German, French, Italian or British man or woman is as good a soul, in his or her way, as you can want to meet. If ever the day comes when peoples, which means

governments, treat one another as reasonably as their citizens treat their opposite numbers, most of the world's political problems will be found to have vanished.

America's tiresomeness has been especially conspicuous owing to the dominant position that she has held since the war, and the wonderful chance that she had of establishing a real peace and a real 'new era', based not on a stock-market gamble but on genuine international co-operation. It was a tragic fate which sent President Wilson to found the League of Nations and then caused his own people to wreck it, obsessed by the delusion that they would be safer in isolation.

Here, however, we are concerned only with the business aspect of America's behaviour to her neighbours, who are all also her debtors; and on this point her attitude has been grossly misrepresented. It was shown in our last chapter how strong is America's position with regard to trade prospects. Whether we like it or not, the flounderings of this mighty whale are going to make all the difference to the business history of the world; and it will not be good for anybody if she starts her new career stamped with the stigma of an unjust accusation. This unjust accusation, as I need hardly say, is the charge so often brought against America of having acted as an 'unconscionable creditor' in the matter of war debts. And it is all the more necessary that this country should be the first to get rid of this delusion, because it was largely owing to the skilful dialectic of a distinguished British statesman that this charge was first put forward and generally believed.

In August, 1922, the Earl of Balfour, whose reputation as a great elder statesman stood rather higher abroad than at home, addressed to the representatives of France, Italy and other ex-Ally states a note on the subject of war debts which has ever since been famous as the Balfour Note. With most affable courtesy and in beautifully worded phrases, he reminded our allies of the extent of their mutual indebtedness, and observed that H.M. Government was prepared, if such a policy formed part of a satisfactory international settlement, to remit all the debts due to Great Britain by our allies in respect of loans, or by Germany in respect of reparations.

Recent events, however, he continued, had made such a policy difficult, the recent event being a demand from the American Government that this country should pay the interest accrued on the Anglo-American debt, and repay it by a sinking fund in twenty-five years. This procedure, Lord Balfour admitted, was clearly in accordance with the original contract; but he observed, 'if our undoubted obligations as a debtor are to be enforced, our not less undoubted rights as a creditor cannot be left wholly in abeyance'. H.M. Government, the Note continued, adopted this change of policy with great reluctance. It was true that Britain was owed much more than it owed, and so would be a large gainer if all inter-Allied war debts were paid; but the world situation could not be looked at from this 'narrow financial standpoint'. The Allied and Associated Powers were much more than creditors or debtors, or both, of one another. 'They were partners in the greatest

international effort ever made in the cause of freedom. . . . Their debts were incurred, their loans were made, not for the separate advantage of particular States, but for a great purpose common to them all.'

These plausible expressions contained the totally false insinuation, which has taken hold of the minds of many people in this and other countries, that the interest of America in the defeat of Germany was as close as that of France or Britain. From which it has been argued that America ought to have flung her money into the common melting-pot with the same readiness with which the European allies flung, not only their money, but the lives of the best of their male populations.

To anyone who will try to put himself into the position of the average American, it will be clear at once that nothing could be more absurd than this specious contention. To suppose that America would have been in serious danger of losing her freedom if Germany had defeated the Allies is a quite ridiculous assumption. And that 'great international effort in the cause of freedom', is in American eyes, a picturesque description of a struggle between two rival groups for supremacy in Europe, with Britain maintaining her traditional objection to the acquisition of Belgium by any Power strong enough to be inconvenient.

It is true that to many generous-minded Americans, closely connected by friendly, literary and other ties with England, it did appear that America's interest in the defeat of Germany was as close as ours, and that her attitude towards her loans to us and (with our endorsement) to the Allies, should be based on that

principle. But to the great majority of American taxpayers the matter must have had a quite different aspect. They, or their ancestors, had left Europe or Britain to find a country in which they could earn a better living, freed from the restraints imposed by the political or other arrangements prevalent in the country of their origin. To many of them, the sort of freedom that had been enjoyed in Russia or Ireland was a brand that had no attractions. As to the war, they must, in so far as they took any interest in it, have regarded it as a disgusting and absurd waste of human life and energy, which only concerned them when it began to threaten to have uncomfortable effects on American trade. From this point of view, it had to be stopped. And stopped it was by the intervention first of American money – or, rather, of American goods paid for with American money – and later on by the appearance of Americans on the field of battle and the knowledge that there were many more to follow.

America, in the eyes of such observers, had been obliged to intervene to stop a number of silly people in Europe from becoming a nuisance to all the world, by ruining themselves in a senseless quarrel. Her Government had raised loans from her citizens to lend money to the Allies to pay for necessary equipment; and then it was suggested by the Allies that, because they had all been fighting for the same noble cause, American taxpayers should provide out of their pockets the interest which the Allies were proposing not to pay. Very naturally, this suggestion seemed to American taxpayers to be absurd, especially as they had a

strong suspicion, which proved to be entirely correct, that if the Ally debtors were relieved of their debt charges they would only use the money so saved on arming for the next war.

Four other reasons have been given by those who charge America with having unjustly claimed repayment of money lent for the war: (1) that all the money was spent in America and put large profits into the pockets of American industry; (2) that prices have fallen heavily since the loans were granted, with the result that repayment would be made in money with a higher buying power, or, to put it in another way, the debtors would have to provide goods and services in much greater quantity than those which the loans had enabled them to buy; (3) that America, by raising still further her already stiff tariff on manufactured goods, had made it more difficult for her debtors to meet their obligations; and (4) that President Hoover, having proposed a year's moratorium on inter-Governmental debts (see p. 118) had practically made their resumption impossible.

There is some truth in all these contentions, though they by no means justify the repudiation and default which have done so much to undermine the respect for contract on which all kinds of business must at all times be founded.

As to the first, it is certainly true that American industry made profits out of furnishing munitions and food to the Allies. But is that any reason why the debtors should refuse to pay for them? British industry, for generations before the war, made profits by selling goods which were paid for in the first instance

by British investors, who lent the necessary money to foreign governments and public bodies and companies; but no one has contended that that was any reason why the borrowers should default on the loans.

Number two – the fall in prices which has altered the value of money since the loans were made – has certainly increased the difficulty of the debtors in meeting their obligations. But this is a risk which all borrowers – and lenders also when the cat jumps in the opposite direction – have to face. If, every time that prices fell, all debtors could claim to have the creditor's charge reduced, or if, whenever prices rose, creditors could demand more interest because money had less buying power, all lending and borrowing would be impossible. During the long fall of prices between 1871 and 1896, did British investors invite their foreign debtors to a conference and let them off part of their obligations? In 1925, when an upward twist in the rubber market carried its price up to 4*s*. 8*d*. per lb., I remember that some of us pointed out how comfortably this rise assisted our payment of the American debt-charge. No one ever suggested that it obliged us to offer to increase the debt-charge. One cannot have it both ways in this workaday world.

As to number three, America's tariff policy, the Hawley-Smoot Tariff of 1930, was described by a leading American economist as 'an act of almost incredible folly' and as having done much to precipitate the subsequent crisis. It certainly sharpened the edge of the contention that America, by her high protection, has made it more difficult for her debtors to pay, in the only sound way in which debts are paid, by delivering

goods. Just as her policy of shipping subsidies, which has maintained her mercantile fleet at enormous cost to her taxpayers, has made it more difficult for her seafaring debtors to pay by furnishing the service of maritime carriage. Some people, in fact, have gone so far as to say that by these policies America has made it impossible for us to pay. But, although her tariff has tended to stop the import of manufactured goods, she has at all times been a heavy importer of articles, such as tin, rubber, tea and coffee, which came in free. The total value of these duty-free articles imported in 1934, when we definitely defaulted, amounted to 990 million dollars, or £198 millions. The import into America of these articles, many of which came from British colonies, or from countries in which British capital had been invested, could always have provided our Government with the necessary dollars. It is true that the Government would have had to buy the dollars from the sellers of the goods; but that would have been equally true if manufactured goods had been shipped from Bradford or from Sheffield. And then there was gold, which could at any time have been sent from mines under British ownership in sufficient quantity to meet the service of the debt. Moreover, have we, since we forsook free trade and put a tariff on imports, said anything to the effect that all our debtors must therefore be allowed a rebate on their obligations?

Number four – President Hoover's moratorium is the strongest of these flimsy arguments; but does not seem to me to justify a blot on England's word.

In the light of the obvious platitudes above set out,

it is somewhat amazing to find the *Economist*, in a leading article on War Debts in its issue of August 6, 1938, saying that 'it would be hard to find more than a handful of Englishmen who do not believe that the course we pursued from the Armistice to the default was justified on the highest moral grounds'. I am glad to say that in my own narrow circle of acquaintance I know plenty of people who think quite otherwise; who agree with me in feeling sore and ashamed, because our collective signature to a contract has been dishonoured by politicians and officials. But I must admit that the great majority of people in this country, knowing little or nothing about the facts of the matter, may be of the opinion expressed by the *Economist*.

On the Continent, the anti-American view is probably even stronger. Dr. Lothrop Stoddard, the American author of a book called *Europe and Our Money*, says, with regard to European opinion on this point, that 'there has been a deliberate "conspiracy of silence" over there' (concerning the extent to which America has already cancelled Europe's debts to her) 'truly amazing in its effectiveness and scope. Politicians, journalists, professional economists even, have simply ignored our side of the story, and in their public utterances have systematically described Uncle Sam as a hard-boiled "Uncle Shylock". No wonder America has become so unpopular abroad that, as Will Rogers inimitably puts it: "The only way we could get in worse would be to help them to win another war" '.

When American taxpayers see us producing a budget surplus of £40 millions and reducing the income tax by 6*d*. (as happened in 1934, the year in which our

default became definite) and spending year by year hundreds of millions on armaments, social services and our own internal debt-charge, we can hardly wonder that our omission on 'the highest moral grounds' to pay what we owe, looks to them a little Pecksniffian.

In June, 1934, the British Government ceased even to produce the 'token payments' by which some attempt to disguise default had been made, and presented to the United States Secretary of State a very ably argued document, setting forth its reasons for so doing. It contended that the 'present settlement' (by which it presumably meant the settlement which it proposed to disregard) imposed on the people of the United Kingdom a burden both unreasonable in itself and inequitable in relation to the treatment accorded to other countries by America; retold the story of the obligations from debtors which the British Government had forgone; and argued that the improvement in Britain's budgetary position had nothing to do with the matter. (The reduction in the income tax was not mentioned.) Stress was also laid on the exchange difficulties that would be involved if payments were resumed. And the message ended with a statement to the effect that the British Government was faced with a choice between only two alternatives, namely, to pay in full the sum of 262 million dollars demanded by the United States, or to suspend all payments, pending final revision of the settlement. The resumption of full payments, it pointed out, would necessitate a corresponding demand by H.M. Government from its own war debtors, and would 'recreate the conditions which existed prior to the

world crisis and were in large measure responsible for it. Such a procedure would throw a bombshell into the European arena which would have financial and economic repercussions all over the five continents and would postpone indefinitely the chances of world recovery'.

It was a very skilful piece of special pleading, but hardly likely to convince an American taxpayer, more interested in his domestic budget than in the chances of world recovery. And some people, at least, in the City seem to have thought that a different line might have been taken, by which payment might have been arranged without producing all the dire results indicated in the British note. A London banker's circular, issued soon after the default, observed that the City fully recognized the strength of the arguments in favour of suspension of war-debt payments, and the skill with which they were marshalled in the official notes issued. 'Nevertheless,' it continued, 'in view of the immense importance of the maintenance of friendly feelings between the American and British peoples, there was a strong under-current of feeling that more might have been done to convince American opinion of our readiness to meet our obligations. The American taxpayer, who does not generally understand much about the difficulties of transferring money from one country to another, sees Britain with a big budget surplus and reads speeches by her statesmen in which they justly eulogize the success of their policy in promoting her prosperity. The American taxpayer is naturally puzzled when, at the same time, his burden of taxation is increased, owing to the

alleged inability of this prosperous debtor to meet his obligations, and is inclined to doubt his *bonâ fides*. To meet this natural irritation on the other side of the Atlantic, it was thought that some suggestion from us might have been made, for a payment on account possibly provided by a dollar loan in New York. It was believed that such an issue would have been placed on terms highly favourable to the borrower.'

In the meantime, this irritation has continued, and is a serious bar to that Anglo-American co-operation which is so essential to the peace and prosperity of the world. It may be unreasonable, but, after all, a debt is a charge which an honest debtor meets, whatever may be his case for thinking that the obligation into which he entered ought not to be fulfilled. Until he can convince his creditor that this is so, the obligation remains.

There are indications that this matter may before long be taken up and settled. But any settlement that may be reached will be robbed of all benefit if the people of this country continue to cherish the delusions about our American war-debt originally created by Lord Balfour, and subsequently reinforced by shallow and irrelevant arguments. America, like all the rest of the nations, has committed plenty of sins in the last twenty years; but in her record as an inter-governmental creditor, she has been more sinned against than sinning. She has, even in the case of the British debt to her, made a substantial concession by reducing the interest from 5 to 3, rising to $3\frac{1}{2}$ per cent.

CHAPTER XIV

THE FOUNDATIONS OF PROGRESS

Mentality of Distress – Instability and Uncertainty – Professor Leacock on Expectation of Disaster – The 'Cycle' Theory Again – Contradicted by Experience – And by Human Craving for Improvement – Mr. Carl Snyder's Investigations – And Demonstration of Even Progress – The Business Man's Point of View – To Him, Fluctuations a Real Fact – The Acquisitive Instinct – Based on Altruistic Sentiment – The 'Biological Law of Affection' – Its Opposite much in Evidence – An Answer to the Business Man – Why Checks to Expansion and Activity? – Diminished Chance of Profit – Checks Infectious – Vicious Circle Spreads – Private Enterprise Tends, when Depression Seen, to Increase It – Mr. Keynes's Storage Proposal.

In the preceding chapters we have found that the recent course of business has been marked by extreme instability. There have been fluctuations in commodity prices which Mr. Keynes has described as 'truly frightful'. Security prices have jumped up and down in a manner equally appalling, at least to those who were forced to sell at or near the bottom level, or who found the assets in their balance sheets cut down in value by a stock-market decline. In consequence of these vagaries, there have been reductions, though on a much more moderate scale, in production and consumption, and a general feeling of uncertainty and apprehension.

Professor Stephen Leacock, an economist with a keen eye to the human side of business affairs, said in

an article in the *New Current Digest* for October, 1938: 'I think that we, speaking collectively for about a hundred million people, are greatly adding to the burden of our world by our new mentality of distress. We cultivate the expectation of disaster. This attitude works towards our destruction. We are all afraid together. We have lost courage. Mediaeval superstition, with its fear of hell, wasn't in it, with our new fear of depression, our new alarm of war. We see it everywhere. Bankers tremble. Newspapers croak. Professors prophesy. Farmers cry. Business slackens. Credit shrinks. Politicians shirk. Even the criminals are discouraged, losing nerve.'

As to the fear of war, there has been plenty of justification for that, with great and powerful nations under the dominance of dictators who find in slaughter and destruction an elevating influence, without which mankind must lose manliness. But as we have seen, though this fear has been by far the most devastating in its effects, there have been other kinds of apprehension which have gone far to rob business of that confidence without which it cannot go ahead on its job of providing prosperity for all of us. Of these fears, the most real and important in its effect on the security markets and, through them, on the mind of the business organizers, was the delusion about a trade cycle. It makes both speculators and industrialists afraid of prosperity by imbuing them with the quite mistaken belief that, just because we may be enjoying activity, expansion and growing command over comforts, the spectre of slump must necessarily be waiting round the corner to make us all poor and miserable again.

How this fear has worked on the stock markets and on general business during 1937 and 1938, and how the croakers' chorus which chanted its cantata was most unfortunately made to appear to have been right by Herr Hitler's activities during the latter year, has been shown in Chapter X. It is thus of the greatest importance, if we want to get the world back to business in a normal and courageous atmosphere, to show that this cycle theory is flatly contradicted, not only by previous experience, but by the deepest instincts of human nature. If it were merely a matter of previous experience, we might, if we relied entirely upon it, be justly accused of being misled by that fatalism which we have detected in the mental habits of some statisticians and chart-readers, who are so deeply immersed in their studies of past records that they forget to notice the effects of what is happening at present. But if past experience can be reinforced by expectations of future action, based on the inexhaustible craving of man to better his lot, we shall be batting on a good wicket.

We have quarrelled with the phrase 'trade cycle' merely because the word 'cycle' implies regular and complete revolution from top of boom to bottom of slump and back again. Such a cycle, if it existed, would evidently make all progress impossible, whereas, as has been shown, progress, at least in material things, has been the rule, ever since science and invention were harnessed by free enterprise, at all times in which they have been given a fair chance to fulfil their function in the service of production for consumption, and have not been paralysed by political fears.

Perhaps it is safer to say once more that no sensible person can deny that there are ups and downs in business. But we can and must assert that they are far from regular in time or in extent, as we have seen to be admitted by champions of the cycle theory. In fact, in so far as we can trust the statistical evidence available, regularity has been much more strongly shown by the progress of business than by its oscillations.

Mr. Carl Snyder, some time statistician to the Federal Reserve Bank of New York, has had access to all the wealth of records and figures that have been provided for the benefit of inquirers in the United States. For many years he has been immersed in these studies and he has already, in scattered articles and addresses, produced results which are of absorbing interest. In his view, with which few in these days will quarrel, the connexion between prices and the volume of purchasing power is close. 'It would seem', he says in an article in the *Quarterly Journal of Economics* for February, 1935, 'that a fair degree of monetary or "purchasing power" stability, sufficient at least for some reasonably stable level of exchange values generally (not individually) is vitally essential for an orderly society and the preservation of general well-being, and even of general sanity and sane government. Can it be brought about?'

Concerning the answer to this question, he finds most violent disagreement; and when he proceeds to ask why this should be so, he thinks that it is possibly because until recent years there has been so little careful research in this field, of the connexion between purchasing power and prices: 'but especially perhaps

because of the lack of adequate measurements not only of price movements, but of the growth and variations of industry and production. As proof, witness the almost universal illusion as to wide variations in industrial production as a whole, and therewith the widespread belief in "inherent" business "cycles", and the endless theories that have been built upon these suppositions.'

All this, however, he finds to be slowly changing; his investigations have revealed the existence, through the last eighty or a hundred years – that is, through the period for which adequate measures are so far possible – of a 'quite extraordinary general stability of trade, at least under normal or peace-time conditions. If', he continues, 'the growth of world production, save in war-time, has been at an astonishingly even rate . . . then it would appear that our so-called trade "cycles" are for the most part local phenomena, and, normally, of no general significance'.

Measurement was carried out by Mr. Snyder through long-time composite indexes, of basic production in the leading commercial countries from 1850 to the date of his article, and results were set out in a highly impressive chart. It shows the line of population in Europe and the Americas advancing steadily at a moderate and slightly slackening pace, a quicker rise in the trade of Great Britain and a still quicker one, as was to be expected, in the trade of the United States.

The method adopted in preparing this comforting picture is explained by Mr. Snyder in terms comprehensible only to statisticians – medians of link relatives

and so on. The conclusion that he draws from it is, that save in the two war periods, the American Civil War and the World War, the rate of growth, even of the basic commodities, was almost uniform throughout the entire period. He also observes that these basic products are the wide variables in industrial production, and that the corresponding fluctuations in the total of the industrial product and of general trade, the 'economic effort as a whole', would be on an even smaller scale.

These conclusions, though highly encouraging to those who regard trade and production problems only from the point of view of general prosperity, would provide little or no comfort to the business organizer, concerned with the question of planning his productive or distributing programme. Any such purely practical person might well reply to Mr. Snyder: 'Thanks very much for your most interesting proof that trade progress is even and steady, and that so-called trade cycles are of no general significance. This is all very nice for the public and the general consumer. But I, in organizing my plant to provide myself or my shareholders with a profit, and the public with a commodity or service that it wants, at a price that it can afford to pay, have only too good reason to know that fluctuations in demand are undeniable facts of business experience. It is easy for you, by striking averages and so smoothing out the fluctuations, to show that when you consider trade progress, not by years or months, as I have to, but by five year periods, a picture is presented of nice even advance, always pleasantly ahead of population increase, and so proving once more the

rise in the standard of life that has been achieved. But when I want to know whether I can show a good balance-sheet next year, I have to remember how many things may happen to upset any calculations that I may now be trying to make.'

All which is obviously true, as Mr. Snyder would be the first to acknowledge. Nevertheless, the results of his investigations ought to give a certain amount of very solid encouragement to the most severely practical business men, by proving to them that, in the light of past experience, trade fluctuations have been of much less importance than is generally believed, and that the line of movement, though it may have wobbled uncomfortably from time to time, has been upwards whenever wars and fears of war have given human nature a chance to express itself on its acquisitive side.

From the existence of this acquisitive instinct that we all recognize in ourselves and in others, we can reckon with confidence that this progress will continue, barring cataclysms, due to the recent relapse into barbarism on the part of important nations. Since we are all eager to acquire and science is always showing us how to do so more easily, economic progress, barring such cataclysms, is evidently assured.

Moreover, this acquisitive instinct, sometimes denounced by idealists as dating from the cave-man and the jungle, is, in fact, in the great majority of us, an expression of a highly respectable and altruistic sentiment. The miser has always been an extremely eccentric being. Even the most vulgar-minded wealth-seeker uses his wealth, when he gets it, in ways designed

to attract, if not the respect, at least the attention of his fellow-creatures. He wants to make a show and be talked about. In other words, he is satisfying, through his acquisitive success, a craving to stand well, as he hopes and thinks, with the rest of us. More decent folk want wealth, not to satisfy personal desires, which can usually be gratified by a very moderate outlay, but to provide for dependents and friends, to be hospitable and generous and to further causes that they think to be worthy of support. And this acquisitive spirit is just as strong among those who regard all property as theft and think that all should share on communistic principles. In their case acquisition is desired, through a noble, if at present impracticable, form of altruism, not for individuals, but for the community. In whatever way society is organized, desire for material improvement seems likely to be one of the strongest motives that will direct its activities.

An American scientist, Mr. Hans Zinsser, has said in a book called *Rats, Lice and History* that 'about the only thing that centuries and changing civilization, religions and customs have not been able to alter is the biological law of affection'. Acquisitiveness, as has been shown, is a means by which this undefeated law chooses to express itself. It may be objected that there is another biological law which is equally impregnable – namely, the law of hatred, or at least dislike, and the tendency, at any rate among nations and governments, to work for mutual detriment and destruction. This last law is certainly painfully in evidence in some parts of the world to-day; but that, surely, is only because we are suffering from one of

those periods of recession which are even more inconvenient in political than in trade matters. If we look at the bloodstained history of the seventeenth and eighteenth centuries and compare it with the comparatively peaceful tale of the nineteenth, we can see that the twentieth, though it has made a disastrous start, may yet better its predecessor's record. War has shown it how to produce, even while it was destroying. At present a mad race in armaments is teaching it to produce butter no less than guns. All the organization and ingenuity that are being forced upon the nations by fear can be used, when they recover their sanity, to promote the biggest trade expansion that the world has yet seen.

Nevertheless, we have not yet found an answer to that practical business man, who is left cold by being told that progress evens itself out when expressed in averages, and insists on the fact that checks and recessions are very real, even if they are not regular enough to be described as cyclical, and even though the bottom of the depression is never, or hardly ever, as deep as that of its predecessor. He wants to know why these checks happen and how they are to be stopped or made less deadly.

To make him happy, we have to provide him with a period of expansion, with growing production, fuller employment, increasing profits (due to larger turnover and not necessarily implying higher prices) and consequently greater consumption of finished articles on the part of wage-earners and shareholders, and of foodstuffs and materials by the industries that manufacture the finished articles. This increased

consumption, both of finished articles and of materials, means larger imports and consequent increase in the purchasing power of the oversea producers who sell them and so larger exports. In this way, expansion causes expansion and what may be called the virtuous circle of prosperity widens for the benefit of all. In a perfectly ordered world, free from political and other shocks, and with business organized by leaders possessing complete knowledge of present conditions and able accurately to forecast the future, this virtuous circle ought to be able to go on spinning for ever.

But as we know this does not happen. At a point there comes a check in one or other section of business activity, because for one reason or another those in charge of them sees less chance of profit ahead. This is the basic cause that checks business in countries that work on a system of private enterprise. But this only leads to the question, why this fear of lower or vanishing profit should arise. To this question there are so many answers, that they, or at least a selection of them, will need our next chapter to themselves. For the present all that need be said is, that if a set-back in one or two corners of the business world is not compensated by continued growth in others, it will gradually spread like an infectious disease. Lower profits, reduced employment and decreased demand for materials will curtail the purchasing power of the consumers affected by the industries suffering from the set-back, and the vicious circle of depression will begin to spin. It is thus of the utmost importance that any signs of depression should be at once detected,

which is sure to happen, and remedied by activity in other directions, which is not nearly so likely.

In fact, it is one of the weaknesses of the system of private enterprise that, as far as it is concerned, remedies for depression are left to chance. Private enterprise, on its own account, is more likely to further depression than cure it. For the decreased demands of one industry makes the organizers of others think that if they wait before ordering materials they may get them cheaper. And so the stocks of materials are allowed to grow, and their figures are always closely watched. Falling prices and rising stocks of materials in the hands of producers, or warehoused in their names, are always a symptom of depression and this symptom becomes a cause of further depression. In this way and from this point of view, the increased productive power which ought to be making us all richer and more comfortable is itself an added danger to prosperity.

This problem of surplus stocks of goods, however, has been modified in some degree by official action since our Government decided, as a measure of protection against war-time scarcity, to acquire and keep stores of certain commodities, under the Essential Commodities Reserves Act of 1938. In his address, referred to on p. 197, Mr. Keynes proposed that it should go much further and 'offer storage to all Empire producers of specified raw materials, either free of warehouse charges and interest or for a nominal charge, provided they ship their surplus produce to approved warehouses in this country'. He brought forward many convincing arguments in favour of

the scheme from various points of view; but it is hard to see that mere storage of stocks in one place would have much effect in checking fluctuations in prices.

CHAPTER XV

LOOKING FOR REMEDIES

Checks to Confidence in Prospect of Profit – International Labour Office on Enterprise as Essential – Attributes Lack of Enterprise to Business Forecasters – Indicating Turn in 'Cycle' – Tendency of Forecasters to See Trouble – Question Whether Forecasting Compatible with Continuous Activity – Natural Course of Trade towards Growth – Checked by Unevenness in Movement – Due to Miscalculations – Such Checks, if Uncorrected, Spread Vicious Circle – How Prevent This Spread? – Totalitarian Regulation? – Its Efficiency yet to be Proved – Dr. Ley on Conditions in Germany – More Regulation Probable Here – Governments have Made the Mess – Their Job to Cure It – If They Can – Monetary Manipulation as Remedy – Its Weakness as Tonic – Mr. Harrod's Proposal for Huge Purchases of Securities by Banks – To Strengthen Capital Market – Capital Market, in Fact, Over-stocked with Money – Mr. Hawtrey on Sausage-Slicing – Dangers of Monetary Juggling – Recovery again Checked by Despots – From Deliberate Policy?

At the end of our last chapter we left unanswered the business-man's question, why checks to business happen, or rather, we answered it only by a statement, that it is because business leaders see less chance of profit, or more chance of loss, ahead of them. Which only leads to the next question, why this uncomfortable prospect suddenly appears. Now we have to try to find an answer to this baffling problem of the change in business sentiment.

We have seen that this change is in these days sometimes produced by a belief that alternations of good

and bad trade, regular and rhythmical, are part of the scheme of the business universe, and that good trade therefore brings its inevitable Nemesis in a depression equal to the prosperity that went before it. This belief we have tried to show to be a delusion, and we have been able to quote eminent economic authority in support of our contention. Trade fluctuations have been shown, out of the mouths of the stoutest champions of the 'cycle' theory, to be irregular both in time and in extent. And the mere fact of continuous progress towards greater comfort is itself sufficient to prove that, on the average, the slumps are much less damaging and severe than the forward movements are vigorous.

Unless this dismal belief can be eradicated, and business can recover the cheerful confidence which once made it sure that, in spite of temporary recessions, active demand by consumers would provide them with profits sooner or later, the future outlook is gloomy. As the *International Labour Office Year-Book* for 1937–8 puts it, 'an essential condition of the working of the system of private enterprise is that business men should be enterprising. A system of private caution lacks the necessary dynamic, without which anything approaching a high level of production is liable to become impossible'. It is gratifying to note that this authoritative work, composed in the serene atmosphere of Geneva, by disinterested watchers in a lofty conning-tower raised well above the buffetings of business, endorses the contention which I had expressed in Chapter IX (written before the *International Labour Office Year-Book* was published) that

'cyclists and chartists' had done much in 1937 to undermine the confidence essential to business.

It points out that the great mass of investors in New York had been caught in the catastrophe of 1929 and were determined not to be caught again, and that with the first sign of a depression there was likely to be a wave of selling that would bring share prices down with extreme rapidity, since everybody would be wishing to hold money rather than securities; and that something of this sort apparently happened. 'In spite of the favourable long-run economic outlook, the beginning of a downward movement on the Stock Exchange was sufficient to alarm investors and increase the desire for liquidity to such an extent as to bring about stock-market decline of major proportions.' Further, the *Year-Book* tells us that producers are anxious to forestall the movements of the market, and that most business organizations in the United States – and we know how true this is also of this country – have set up special departments to study economic fluctuations and trends. Like the investors, business firms were anxious not to be caught with holdings bought at the top, in the form of 'inventories' – stocks of materials and manufactured goods – or of expanded equipment. And a conviction, supplied by their forecasting departments, that the business 'cycle' was about to turn, may have accounted for the extremely rapid decline in production. For, in the opinion of the Geneva watchdogs, 'the natural tendency of technical forecasters is to see trouble. If good fortune comes which they have not foreseen they will easily be forgiven, but if they have failed to see the

clouds on the horizon they will be blamed'. So much so, that it is a 'moot question how far a highly developed system of business forecasting among private producers is consistent with continuous economic activity'.

Here is a dilemma, as the *Year-Book* most truly says; for business must exercise foresight, and always has worked under this necessity. But that is no reason why it should be put off its stroke by forecasts produced by a false application of precedents, made by fatalistic economists and chart-readers, deeply immersed in the records of the past and sometimes ignorant of the market conditions of the moment, and ignoring what the *International Labour Office Year-Book* calls the 'favourable long-run economic outlook'.

Given release from this kind of dismal doctrine, and also – a terribly unlikely condition in these times – from political interference, well-meant or predatory, the course of trade should be one of steady growth, such as it was made to appear by Mr. Snyder's chart, which ruled out the ups and down by means of averages. As we saw at the beginning of this inquiry, the whole trading world, and the various communities into which it is divided, are composed of individuals, the great majority of whom are, directly or indirectly, producers and all of whom are consumers. As the producers pour goods and services into the heap, they are themselves consuming the goods and services produced by one another. Every article produced and sold implies demand for an article of roughly similar value; and as productive power grows, with the help of science and invention, consuming

power grows likewise. Under such conditions the only influence that can bring about a pause, owing to apprehension of vanishing profits, seems to be unevenness in the forward movement, due to miscalculations of demand.

If, for example, we take a simplified case and suppose that the shirt-makers suddenly expand their production twice as rapidly as all the other producers, shirts will cease to possess the same value in relation to other goods. If, hitherto, they have been equal in value to a pair of boots, they will now tend to sell for half the price of a pair of boots and so on with regard to other commodities. If this has happened owing to some invention that has cheapened shirt-making, the shirt-makers who have adopted it will not suffer. A certain amount of friction and discomfort will be inflicted on the backward firms; but after the necessary adjustments have been made, business should go on as before, or better than before, with the shirt-makers' customers able either to buy more shirts or to buy more of other commodities with the money released by the cheapening of shirts. If, on the other hand, the expansion in shirt production has been due to mistaken views held by the shirt-makers as to their power to sell shirts, and not to any ability to sell them cheaper at a profit, they will find that they have spoilt their market by being ahead of demand. For they will still be wanting to receive a pair of boots – or its equivalent in money – for each shirt that they make; but since, for the sake of our example it was assumed that shirt-making had made a solitary spurt, there will have been no corresponding expansion in boot-making, and

so there will not be enough boots to match the output of shirts. The shirt-makers will thus be obliged either to sell their output at a loss or to hold a great part of it and restrict it in future. Until the output of the rest of the community catches up with them, they will have to dismiss workers or give them only half-time employment.

This imaginary example has been expressed in exaggerated terms, for the sake of clearness; but it shows the kind of miscalculation which is, in fact, inherent in business conducted by private enterprise, working under normal conditions to supply a market the demands of which depend on more or less uniform progress in output among all industries. Producers can only sell if other producers are turning out goods to provide the money wherewith to buy their product; and so the policy of those industries which are conducted by managers who take too optimistic views concerning future demands, causes recessions here and there, which, as long as business expansion is proceeding as it ought to do, are soon corrected and cured.

Unless, however, the necessary cure and correction can be promptly applied, the vicious circle begins to spin, and reaction develops into slump. If several industries at once have made similar miscalculations and expanded more rapidly than demand justified, or if political fears of any kind have undermined general confidence, or if, again, the croakers' chorus of cyclists and chartists have drowned the cheerful hum of business with dismal vaticinations of inevitable collapse, then there is general fear that profits will vanish.

Orders for materials will cease, prices of commodities will shrivel, probably depressed still further by sales on the part of speculators, the buying power of primary producers will dwindle, unemployment will reduce the consuming power of the manual workers and lay an increased burden on the State in maintaining those out of work, the dividends of shareholders will shrink, in some cases out of sight, and the spectacle of poverty in the midst of potential plenty will sharpen the weapons of those who believe that private enterprise has failed.

How, then, can these evils be corrected? In other words, how can industry be protected against its tendency to make miscalculations which, while causing merely temporary inconvenience if their effect is promptly checked, lead to widespread ruin if general progress fails to provide the necessary cure?

Is regulation, similar to that exercised by the 'totalitarian' States, the only solution? Such a remedy seems to be hinted at by the *International Labour Office Year-Book*. It, having shown that business must exercise foresight, but that forecasting, as lately developed, may easily be inconsistent with sustained business activity, made the following somewhat cryptic observation: 'It may eventually prove that longer range planning within the business undertaking must have as its counterpart longer range planning for business as a whole.'

We have heard a good deal lately about the advantages, from a business point of view, possessed by nations under totalitarian rule, especially as exemplified by Germany's recent progress. An article in

the *Economist* of November 5, 1938, and a series in *The Times* of November 17, 18 and 19, have called attention to the formidable strength of a competitor who, as *The Times* said in a leading article summing the matter up, 'controlling the productive, the consuming, and the credit capacity of a great country, is able to act as manufacturer, salesman, buyer and banker in one, and to arrange self-liquidating transactions on a big scale covering a period of years'.

Obviously when a despotic government, ruling a subservient people, decides what every one is to produce and consume, the problem of unemployment is solved – just as it is, as was once pointed out by the late Lord Snowden, in Dartmoor Prison. It is also easy for a government in such a position to carry out mass purchases of produce from other countries, paying them more than the world price, and then to sell part of it at less than the world price to markets in which it desires to acquire purchasing power. But the loss involved by such ingenuities is not escaped. It is ultimately borne by the population living under totalitarian rule. Again, it is easy, for a time, for such a government to oblige countries which it has favoured with its purchases to take payment in out-of-date motor-cars and war material, and to give to Hungary 'as a barter equivalent for fatted pigs an enormous supply of mouth harmonicas', as related by Herr Mühlen in his work, *Hitler's Magician, Schacht.*

But these advantages carry with them certain drawbacks. As to unemployment, a speech by Dr. Ley, head of the 'Labour Front', at Essen on October 30, 1938, and reported in *The Times* of November 1,

showed that though Germany had 'no more workers', nevertheless, 'there are still to-day hundreds of thousands of people unemployed, only they do not realize it and other people do not notice it. They are industrious by nature, but are busy at some utterly useless task'. Which seems to show that the efficiency of totalitarian organization is less perfect than it is thought to be by some of its admirers. To-day, Dr. Ley continued, if one wanted to build even a little cottage in Germany, it was necessary to fill out forms 15 yards long and submit them to a succession of superfluous officials. This kind of complaint may also be heard from the farmers in this country who are benefited and exasperated by our Government's semi-totalitarian efforts to organize agriculture.

As to foreign trade, it may be noted that Germany's totalitarian ingenuities and centralized control of production and credit have not prevented a large decline in exports and increase in imports in the first three quarters of 1938, when it was very important for her to obtain purchasing power abroad, by selling much and buying little. All these alleged advantages thus seem to have little effect in relieving totalitarian countries from the effect of the trade depression, which their militaristic gestures have done so much to promote.

Whether despotism is the short cut to wealth is thus a matter that has still to be proved. But in the meantime the purchasing power of a whole people, wielded by one hand, is a formidable competitor with which the nations that believe in peace and freedom have to reckon; and its existence makes it all the more urgent for us, and other peace-and-freedom peoples, to see

what can be done to save industry from depressions on one hand and totalitarianism on the other.

It seems that in order to save the right of free speech and free action (as long as we do not harm one another) and save ourselves from the spying and tale-bearing that is one of the most revolting features of totalitarianism, we shall have to submit to a 'hair of the dog that bit' – in other words, a good deal more regulation than is pleasant. In view of the complaints of farmers concerning the hideous amount of red-tape involved by bureaucratic regulation, and the lamentable failure that is generally believed to have been made by official authority in its early attempts at equipping our air force, most of us will hope that our Government will do more by way of enforcing regulation (where necessary) on industry than by doing the regulation itself.

At the same time, it may fairly be argued that the present mess in which industry finds itself wallowing is entirely due to the action of governments in the past. All our troubles, as I showed on p. 109, are traceable, directly or indirectly, to the war of 1914–18 and its after-effects. It is the chief business of governments, or ought to be, to keep the peace at home and abroad; and their failure to do so has landed the world in a situation in which business confidence, always a tender plant, shows signs of frost-bite under the first breath of east wind. It is thus as obviously the job of governments to put things right, as it is difficult to expect them to do so with expedition and success.

As to what we ought to ask them to do, the most authoritative suggestions are usually concerned with

monetary manipulation, foreign trade regulation and public works.

Monetary causes bulk large in the literature of the trade cycle, as being, in the opinion of many of its exponents, the origin both of booms and slumps. Booms, according to this school of thought, would never run into excess if they were not encouraged by the freedom with which bankers provide the optimistic expanders of industry and trade with the sinews of expansion; and if there were no booms, slumps would never happen. Also, given depression, the obvious cure for it is cheap and plentiful money.

As to these contentions, there is little need to point out how difficult it would be for bankers, in times of active and prosperous trade, to refuse credit to solvent customers because they thought that trade was 'too active and prosperous'. Because in fact, much as the cyclist school has said and written about recent booms, we have first-rate economic authority, as shown on p. 153, for the view that there has been no such thing as a real industrial boom since the brief fever of 1919; and some of us would be only too glad to see even a good imitation of the brave and hearty forward movements of pre-war times. Stock-Exchange booms there have certainly been; and they ought, if there were any truth in the theory that the stock markets are a trustworthy barometer of the future course of industry, to have heralded industrial booms. But the alleged barometer then, as so often, was a lamentably false prophet.

As to cheap money as a stimulus to revival, it is undoubtedly a help, if other conditions are favourable

– that is to say, if industry can see its way to earning profits. But its effects are apt to be very much exaggerated by the monetary school, for the price of short credit, borrowed by industry from banks, is an almost negligible item in the cost of working most of the active industries, whether productive or distributive; and even the price of long-term money, raised by issues of securities to the public, is by no means as important as it might seem to be. Even if it could be had for nothing, industry would still be shy, if it were doubtful about the future course of other items in the cost of production and, above all, about the probable market for its products.

On this subject, an observation by Mr. R. G. Hawtrey, in his book *A Century of Bank Rate*, is very much to the point. He is a distinguished and determined advocate of monetary control through Bank rate, working on the short-term price of credit, the efficiency of which we have ventured to question. As to the long-term rate, reflected by the price of Stock-Exchange securities, he says that 'the idea of the possible openings for investment forming a series in order of remunerativeness, so that all promising a yield in excess of the rate of interest prevailing at the moment have already been filled, and a fall in the rate will bring into exploitation a nicely calculated segment of the remainder, as a slice is cut off a sausage, is an academic fiction'.

And yet in August, 1938, an article in *The Times* by Mr. Harrod proposed that the banks should be persuaded to buy large blocks of Government securities, so as to 'pump money in' and 'by making the

long-term capital market more favourable, induce the business world to make additional capital outlay. . . . There is no doubt', he continued, 'that during the last year there has been extreme difficulty in floating new issues and that this is connected with the continued weakness of the Stock Exchange'.

Such was the programme – the purchase by the banks of some hundreds of millions of gilt-edged securities, so raising their prices and those current in other markets; in order that a number of firms, believed by its author to have been 'held back from expansion by the bad condition of the issue market', might be induced to make issues and use the money subscribed by the public on capital outlay, so stimulating revival. Mr. Harrod was President of the Economic Section of the British Association, then just about to meet; and *The Times* reprinted his article in pamphlet form.

It was an interesting example of the extent to which so many of our prominent economists steep their fine and subtle minds in abstract studies and forget to acquaint themselves with the contemporary facts of the business world. For the 'bad condition of the issue market' was what Mr. Hawtrey would call an academic fiction. As has already been related (on p. 166), there had been a steady stream of selling by real investors, who had preferred to cash their profits and wait for the slump that the croakers were prophesying before buying back their securities. There was consequently, as any stockbroker's office-boy could have told Mr. Harrod, a great mass of money ready to be tempted by favourable opportunities of reinvestment. The scarcity of new issues was due, not to the state of

the issue market, but to the absence of trade opportunities with profitable prospects. When any attractive issue came out, it was gobbled up in one mouthful. If Mr. Harrod had read the City articles with the attention that should be given to them by those who are hatching bold schemes of financial jugglery, he would have noticed that at the end of July, when all the world was packing up for the holidays, subscriptions amounting to £28 millions were received for an issue of 1,500,000 £1 preference shares offered by African Explosives and Industries. The eager rush for a big block of Woolworth shares, offered early in November, 1938, is another proof of the mass of money waiting for what its owners believed to be a chance of sound investment. Moreover, even if Mr. Harrod's view about the condition of the issue market had been correct, would his proposed remedy have staved off the depression which he had stated in his article to be due? The *Economist*, which had printed in its issue of July 9, 1938, a letter from him advocating the programme later developed in his *Times* article, saw reason to doubt it. 'How', it asked in an article on July 23, 'can lower interest rates – or public works for that matter – provide more orders for the textile works of Lancashire and Yorkshire, or for the coal-mines and tinplate mills of South Wales – save, perhaps, in the long run when, as Mr. Keynes tells us, we are all dead?'

And in fact, so far from depression being due, and requiring these heroic measures to avert it, trade was showing an obstinate determination to steady itself, as was shown on p. 172; and in the United States recovery seemed to be well under way, raising hopes

of better trade for all the rest of the world. Then there came the apparently inevitable political upset; and Herr Hitler once more obliged the croakers, first with the Czechoslovakian crisis of September, 1938, and then with the horrible outburst of Jew-baiting in November.

A little later, Signor Mussolini (or the Italian people, with carefully staged 'spontaneous' outbursts) took up the running with claims on Tunisia, Corsica, etc. It was on this occasion that a paragraph in the *Financial News*, over the well-known signature of P. E., suggested that whenever there seems to be a chance of better trade, one or other of the despots comes out with some action or claim that causes apprehensions and set-back. The evident object of this arrangement being to keep trade slack and the prices of commodities consequently cheap, so that the despots may continue to be able to buy war materials on comfortable terms. If this ingenious suggestion is well founded, the croakers and the despots work together in pleasant and effective harmony.

In the face of influences such as these, monetary manipulation cannot do much for stimulating trade. Even in more normal times its effectiveness as a brake on industrial exuberance is much greater than as a spur to recovery. When industry is making lop-sided and uneven progress and so threatening to upset itself, it is just possible that a gentle hint of dearer and scarcer money might check exuberance and right the position. But recent experience has shown that such measures would be much more likely to check confidence all round, and to result in a reaction, probably more

severe than industry would, if left to itself, have inflicted on itself. As happened in America, in the spring of 1937, as related on p. 134.

The worst of all kinds of manipulation in business matters is, that the wisest manipulators can never be quite sure how their devices will affect the confidence of the business leaders on which, in communities working under private enterprise, the progress of industry depends.

Hence the fall of the gold standard, worked according to rules that were generally known, has brought a new element of uncertainty into business life, by giving more scope to monetary manipulators. Fortunately, however, those who exercise this power are forced to use it with extreme caution. If they make money too plentiful, they are likely to raise panic through the fear of inflation. If they make it too scarce, they are still more likely to produce violent trade reaction, owing to a fall in prices caused by fears of deflation. They ought, however, to be able to steer a prudent mid-channel course, seeing to it that the supply of money keeps pace with the progress of production.

CHAPTER XVI

'OVER-SAVING' AND DEPRESSION

Do We Produce Depression by Saving too Much? – Mr. Hobson's Doctrine – Lord Stamp's Contradiction – Mr. Hobson's Admission – Saving as Reducing Luxury Expenditure – Argument less Strong since Redistribution of National Income – Keynes Doctrine that Saving and Investment always Balance – Mrs. Robinson's Explanation – Raises Doubts – Need to Maintain Confidence in Profit Prospect through Increased Demands from Consumers.

CLOSELY allied to the monetary causes to which depressions are sometimes attributed is the problem of 'over-saving', already referred to on pp. 58 and 141. Do we check trade when, instead of spending our money on articles for our own consumption, we save some of it? If we buy securities with the money saved, it goes to someone else. If he just leaves it at his bank, or if we, instead of buying securities, leave it at ours, the turnover of money is slower (unless the bank lends it to someone who spends it) and there may be a check to consumption which may start depression. But if our money goes into some new enterprise, it is used to pay those who are equipping it and they presumably spend it on consumption. Everything thus seems to depend on what happens to the money saved.

Mr. J. A. Hobson has been distinguished for half a century as a vigorous champion of the over-saving

theory. In a book called the *Physiology of Industry*, which he published in 1889 in partnership with Mr. A. F. Mummery, he said that 'saving, while it increases the existing aggregate of capital, simultaneously reduces the quantity of utilities and conveniences consumed'. This seems to mean that when we save we reduce our purchases of goods and services (or 'utilities and conveniences'), which is certainly true, and so 'any undue exercise of this habit must cause an accumulation of Capital in excess of that which is required for use'; but it surely ignores the fact that the sum which we devote to capital purposes goes into the hands of those who provide the necessary equipment and so into those of the wage-earners whom they employ, who proceed to spend it on utilities or conveniences. This important aspect of saving is expressed by Lord Stamp, in his *Christian Ethic*, when he says that 'money saved, except in a teapot, goes into industry by devious routes, and builds factories or houses, or ships, or develops lands and mines. Whether I save or spend a pound is the difference between a demand for bricks or a demand for boots'.

Mr. Hobson himself has now confirmed this view of the matter in a statement that he makes in a note to his recently published *Confessions of an Economic Heretic*. Therein he says that 'a nation, like an individual, may save any proportion of his income he likes without causing excess of investment or depression of trade, provided it can find an adequate internal or external market for the increase of capital goods or consumption goods into which his savings go. So long as savings

continue to be employed in paying workers to produce more capital goods, in plant and materials, either for home use or for export, there is no over-saving in the proper sense of the term. It is only when some of the current savings cannot find a profitable investment, owing to the failure of consumer markets (home or external) to keep pace with the increase of producing power, that depression and unemployment set in'.

From this account of the matter it seems that not over-saving so much as under-consumption is the cause of depression. So that if the problem – of converting consumers' needs into effective demands – that we are seeking to solve could be well and truly dealt with, over-saving could no longer trouble us, at least until that far-off day arrives when all the material needs of mankind have been met.

Before the redistribution of the national income which Dr. Bowley showed us (p. 114) to have happened since the war, there was a strong argument in favour of saving by the wealthy. It tended to reduce expenditure on luxury goods and to divert it to the production and consequent cheapening of the comforts and necessaries needed by the poorer classes. Now that, as Dr. Bowley has told us, the very rich have less than half their pre-war income and the least well-off of the working class have gained most, this argument has lost some, though by no means all, of its force. When not too excessive, and not too stupid, luxury expenditure adds something to the graces of life and provides the social Punch and Judy show which, with all its absurdities, gives a certain brightness to the general picture. Even luxury expenditure, moreover,

provides employment, and any violent reduction of it (which there is not much need to fear, unless it is enforced as it was during the war) causes depression among its providers. Whether its present rate can be maintained in view of the big effort on more serious forms of production that lies before us, remains to be seen. If all that we are told about our idle resources is true, it may be possible; and any attempt to reduce it by increases in direct taxation would probably do more harm than good, by undermining still further the courage of the business organizers.

It thus seems that the average citizen who wants to do the right thing and has been caused by all this talk about over-saving to wonder whether he ought not to spend all that he can get, can carry on at his present, or even at a slightly increased, rate of saving with a good conscience. And this comfortable conclusion is confirmed by a doctrine, with Mr. Keynes's authority behind it, which tells us that there cannot be any over-saving, because saving and investment (in the meaning of additions to real capital) must always balance.

Fortunately for the large number of us who find Mr. Keynes's great work on the *General Theory of Employment* a tough banquet to attack and digest, a simplified account of its main principles has been provided in a book called *An Introduction to the Theory of Employment* by Mrs. Robinson, well qualified to interpret the doctrine of its original exponent. She tells us that 'it can easily be seen that for the community as a whole the rate of saving must be equal to the rate of investment. All incomes are derived either from producing consumption goods or from producing

investment goods. And all income either is spent on consumption goods or is saved. The income derived from producing consumption goods is equal to what is spent on them. Therefore what is saved is equal to the income derived from producing investment goods. In short, the rate of saving is equal to the rate of investment'.

This looks almost too simple to be quite true. The income of the bootmaker is what we spend on boots. (Even this statement is subject to some qualification, owing to intermediate charges by middlemen, transporters and retailers; but if we include among producers all who handle a product between manufacture and sale, it seems to be true.) It must, however, sometimes happen that part of the boot-producers' income is spent on capital expansion and in that case part of it will go into investment goods. In this event it would seem that part of what consumers have spent has been invested in capital outlay. It is true that the boot-producers will have saved it and so reduced their own spending on consumers' goods; but they will have handed on their spending power to the workers whom they employ on capital outlay, who will spend it on their current needs as consumers. In such a case the money seems to be both spent and invested, and such cases must surely be frequent. So that the neat division of income into two separate streams, one going into consumption goods and the other into investment goods, does not appear to be justified. In fact, one might argue from Lord Stamp's statement and Mr. Hobson's admission – that as long as there is an adequate market for capital

goods, savings are employed in paying workers – money invested always goes into consumption goods.

When investment, in the sense of capital expansion, has slackened or ceased because the business organizers cannot see their way making profits out of it, then perhaps over-saving may be possible, because it checks consumption. But Mrs. Robinson's analysis comforts us again here by telling us that in so far as we save more we make somebody else save less. 'Any one individual', she writes, 'can increase his rate of saving, but the very fact that he is saving more, which means that he is spending less, leads to a decline in other people's incomes to such an extent that they save less, and his saving makes no change in the total rate of saving.' If this be really so, over-saving would seem to be impossible; but in some cases, at least, those who suffer a decline in income do not save less, but meet the decline by reduced consumption. This must surely be so in some of the millions of cases of contractual saving, when people have undertaken to pay premiums on insurance policies, or have bought houses, furniture, etc., on the instalment system and are obliged to go on paying their instalments or forfeit what they have already paid, or part of it.

Later on we find another difficulty which puzzles us. Mrs. Robinson tells us on p. 30 of her book that an increase in the rate at which capital goods are being produced itself raises the demand for consumption goods, and we have already seen good reason for agreeing with this statement. But this being so, one wonders why, granted the perfect equilibrium between saving and investment which the Theory of Employment

assumes, fluctuations in productive activity should ever occur. With growing production of capital goods continually stimulating the demand for consumption goods, and saving always nicely adjusted to investment, an era of uninterrupted expansion would seem to be assured. Mrs. Robinson explains on p. 31, that 'as capital accumulates more and more equipment is competing to satisfy a given demand for consumption goods and the rate of profit on capital falls off'. But we had learnt from the previous page that the demand for consumption goods is not 'given', but increases with the rate of production of capital goods. If this is so, as it surely is, then it would seem that fluctuations in trade must be due not to any general and even increase in investment, but unevenness in progress due to miscalculations by optimistic *entrepreneurs*, as suggested on p. 227.

But these detailed carpings, which may be merely a product of misunderstanding on my part, leave the general question of saving where it was. As long as there is a ready market for capital goods, over-saving does not arise. If it is also true that economic laws forbid us to save too much, this fact is all the more comforting for the saver. Ultimately, we all live on consumption goods – the necessaries and comforts that we buy in the shops and the services that we buy from those who teach, heal, protect and amuse us and satisfy our roaming tendency by carting us about. Without a constant addition to capital goods these consumption goods cannot be increased and so the problem of turning needs into effective demands cannot be met.

Since the activity of the whole community is influenced by that of the capital goods industries, it is essential to keep the business organizers confident, by showing them a chance of earning profits; and so we come back once more to confidence, in future profits, to be earned through increased demands from consumers, as the linch-pin in the wheel of progress. As Mr. Keynes has most truly and happily said, 'the right remedy for the trade cycle is not to be found in abolishing booms and thus keeping us permanently in a semi-slump; but in abolishing slumps and thus keeping us permanently in a quasi-boom'.

CHAPTER XVII

ORGANIZATION AND PUBLIC WORKS

Organization for Peace-Time Effort – The Economist's £500 Millions of Possible Extra Production – The Chance They Give Us – Is This Huge Waste the Price of Liberty? – Or of Our Dependence on International Trade? – Germany's Trade Offensive – Mr. Hudson on Organizing British Industries into Units – Able to Talk to Opposite Numbers in Germany – Drawback of Official Boards – Hatred Produced by German System – Efficiency the Real Cure for British Export Trade – Full Revival Impossible while Fear of War Prevails – Meantime, Public Works Useful Stop-Gap – Long Ago Advocated by Mr. Sidney Webb – Now by Mr. Keynes – His Example of Buried Bank-notes – Who is to Pay? – And How? – Other Objections – All Over-balanced by Advantages – Public Works' Direct Approach to Object – Of Getting Purchasing Power where It is Wanted – Rearmament's Help to Industry – Work of All Kinds Waiting to be Done.

AFTER monetary manipulation, we found that the remedies for trade reaction most popular with expert theorists were public works and foreign trade regulation; besides these specific remedies, a commonly held opinion has been especially strong since we were on the brink of war at the end of September, 1938, that vigorous measures should be taken by the Government and by the country to organize it for better co-ordinated effort in time of peace. Not only, it is urged, would this necessary organization be of the greatest possible benefit if war did happen, but it would also do us good service by putting to use, for peaceful purposes

of trade, the resources, human and material, which at present are being allowed to go to waste. In an article on 'National Organization' in its issue of October 22, 1938, the *Economist* discussed various measures that had, in its opinion, to be taken, in what it called the 'present half-peace', if we were to catch up with Germany. 'That we can catch up', it continued, 'is beyond doubt. We are the far richer nation; we are not straining ourselves to equip an army of millions; and we still have the advantage, which Germany has now used up, of a considerable unused capacity of men and materials. This last factor may prove decisive. For though the Nazis can now produce no more guns without entrenching on their supplies of butter, we still have men and capital standing idle that could produce wealth to the value of at least £500 millions a year.'

It may be remembered that a few pages ago, a speech by Dr. Ley, head of the German Labour Front, was quoted to the effect that Germany also had reserves of men who, though not unemployed, were employed on some utterly useless task. He went on to say that these people, craftsmen and small traders, clerks and petty officials, would be removed from their present jobs and be set to work of national importance, such as coal-mining. But can one really make good coal-miners out of clerks and petty officials?

The question, however, of our strength compared with Germany's does not at present concern us. What does, is the really amazing statement of the always careful *Economist* as to the amount of potential power available in this country. With at least five hundred

million pounds' worth of possible annual output not being created, we can evidently, if we set about the job in earnest, not only arm to a point that will produce politeness on the part of the preachers of power-politics, but have something over for raising the general standard of comfort.

At the same time, the existence of this waste is, at first sight, a serious reflection on the way in which we have been managing things. It is easy to say in our haste that if this enormous waste is the price of liberty and private enterprise, it is high time to take not only a leaf, but some whole chapters, out of the books of the despots, whether Fascist, Nazi or Communist. But is this blot on our scutcheon to be debited to liberty? Surely it is an effect of the policy which, during some generations before the war, increased by leaps and bounds the wealth of our country and of all the rest of the world that it fertilized. By this policy we made ourselves dependent for full prosperity on the activity of international trade, and so gave hostages not only to fortune, but to the sanity of mankind in general, lately standing at a heavy discount. With world trade knocked to pieces by economic nationalism, fear of war and the caprices of American business and Government, the position of Britain, the world-wide trader, was such that no elasticity and resource on the part of private enterprise could have filled the gap in her activity. When we add to these considerations the funk atmosphere and the croakers' chorus, described in previous chapters, and the consequent lack of confidence prevalent among the business organizers, there is little need to be surprised and

shocked when we find that we have not been working at full capacity.

As to the kind of line that the inevitable reorganization will take, we shall have to wait for the slow-moving machinery of Government to show what our rulers mean to do about it when the voluntary national register, which it announced on December 1, 1938, has been completed. How far will it follow the German model, as to the results of which scepticism has been expressed on p. 231? A full examination of 'Germany's Trade Offensive' was given in the *Economist* of November 5, 1938, ending with a list of measures to be taken to meet it, on the principle that maintenance of our foreign trade is an aspect of defence that we cannot afford to neglect, and with the incidental remark that most of the measures that would have to be taken in the cause of commercial defence would probably be as objectionable and wasteful as the building of bombers and the digging of trenches.

One of them was a suggestion that Britain might make use of her enormous buying power to induce countries from which we buy to spend on British goods a fixed percentage of the British money received by them. As to it, the *Economist* observed that 'the great objection to this method is that it encourages the strait-jacketing of trade. But even strait-jackets are necessary in asylums'. None of the methods proposed, the article went on to say, gives a satisfactory answer to 'Germany's new technique of offering to buy the whole of a country's crop of a commodity at an attractive price'.

This is one of the ingenious methods by which

Germany's rulers have been working to secure the supply of essential materials. It introduces tiresome friction and dislocation into international trade; but it seems likely to cure itself by the loss that it involves to the German people, and, still more, by the inconvenience and loss that it inflicts on governments and consumers in the countries that submit to it.

In a debate in the House of Commons on November 30, 1938, Mr. Hudson, Secretary to the Overseas Trade Department, gave some explanation of the system. He said that in Central and South-Eastern Europe, the basis of Germany's hold was that they paid to the producer much more than the world price. As examples he quoted over £10 per ton paid by Germany for wheat when it was selling in London at £7; £7 12*s*. a metric quintal for eggs, when the London price was £5 18*s*. and so on. This was very pleasant for the Rumanian or Bulgarian peasant, but these high prices were obviously paid at the expense of the German people, which had to provide them, either by paying more for bread or eggs, or through taxation. Moreover, there was another side to these bargains. For the high prices secured by Germany's customers were paid in German money – some form or another of 'blocked marks', which could only be spent in Germany; and so the selling Governments, which had made what seemed to be such a profitable deal for their producers, had to take such goods as Germany was prepared to supply, such as the mouth-organs sold to Hungary, as recorded on p. 230. Here Germany certainly scored; but does this kind of score really promote genuine trade?

An amusing comment on such business was provided by Mr. J. P. Kennedy, the American Ambassador, in an address delivered to the Manchester Chamber of Commerce on November 29, 1938. As reported in the *Daily Telegraph* of the following day, he said that 'these barter deals may sound interesting, and look profitable, but too many of them leave one party or another holding a lot of things he doesn't want. A business man may take canary birds, fish-food or mouth-organs, if he has to, but he would rather have cash with which he can buy what he wants, when he wants it, and at the cheapest price available. The plight of the Jugoslav merchants, loaded down with tons of aspirin', continued Mr. Kennedy, 'is indicated of the plight of many traders trying to do business on a barter basis. The people of Jugoslavia unobligingly refused to have headaches. It is safe to assume, however, that there were some very bad headaches among those who held the aspirin'.

Nevertheless, this kind of Alice-in-Wonderland trading, which will surely be noted by future historians as one of the most curious developments of the now prevalent insanity, is not at all amusing to the countries and industries affected by it. Mr. Hudson, in the speech already cited, said that 'by these methods Germany is obtaining a stranglehold on the countries in that part of Europe, an uneconomic stranglehold at the expense of her own people'. In looking for a solution, he said that no one wanted to introduce similar methods. The only way that our Government saw was by organizing our industries in such a way that they would be able to speak as units with their opposite

numbers in Germany and say: 'Unless you are prepared to put an end to this form of treatment, unless you are prepared to come to an agreement to sell your goods at prices which represent a reasonable return, then we will fight you and beat you at your own game.'

These were brave words. But one was left wondering how far German industries, strictly controlled by their Government, would be allowed to talk to their British opposite numbers, even when the latter had been organized into units as Mr. Hudson had indicated. It was, therefore, natural enough for Mr. Shinwell to ask whether the Government accepted the Labour Party amendment, which had called for trading organizations on national lines, including export boards. To this pertinent inquiry, Mr. Hudson had a ready answer. 'Boards', he said, 'would have the same effect upon the world as the German method – to make the nations of the world hate the particular country which is imposing these restrictions. Every country in South-Eastern Europe', he added, 'hates this process. They are all afraid of being economically strangled by Germany and are continually turning to us to ask us to help them out.'

Moreover, Mr. Hudson, in a statement to the *Financial Times*, published in its issue of December 2, 1938, was able to show that the system proposed by him had already achieved some success. His idea was that exporters should combine into specific units and each provide a fighting fund, to be used, if need be, for price adjustments. Quite lately, he related, one of our leading industries made such a joint effort. It

put up a fund and sent a first-class man abroad on its behalf, who told the various foreign competitors that unless they came to a price agreement with this country, his group would undercut them in every venture, no matter what the cost. 'Well, he returned with a price agreement in his pocket without having spent a cent of the fighting fund.'

Mr. Hudson did not consider it desirable to disclose what industries or territories were involved. In Parliament, he had only mentioned South-Eastern Europe; actually, such problems were world-wide. He added that it is not the Government's job to conduct these trade transactions, which were the business of the exporters. 'They must realize that, faced with a new situation, they must evolve entirely new methods.' Not so entirely new, perhaps, for such methods have already been used with success by the steel industry and others. But their general application, with official support behind them, may prove to be the right way through the artificially created difficulties with which our exporters are faced.

Trying to force trade down unwilling throats, by methods which produce hatred, is obviously a desperate measure, bound to fail in the long run. The run, however, may be long enough to do us, and world trade, a great deal of harm; and whatever be the method employed for meeting this application of force to commerce, the bedrock of the problem lies in the efficiency of British industry, and its ability to turn out goods which will compete with all-comers in quality and price. Given this efficiency, our comparatively free market, and the comparatively free use that

all who sell to us can make of any money that they get by so doing, gives us a long pull in dealing with our neighbours.

Whether that efficiency can best be secured by Mr. Hudson's scheme of organizing industries into units, or by taking a bold step towards freer competition, or by a judicious blend of both policies, is a matter beyond the scope of our present inquiry. What is certain is that British industry has made a remarkable recovery in efficiency since the confidence of its leaders was restored by the fall of the gold standard and the abandonment of the free-trade policy that the economic nationalism of other countries had made impossible; that the recent crisis, at the end of September, 1938, has shown the Government, the country and its industries, the urgent need for efficiency in productive power, as well as in defensive strength; and that, as Mr. Kennedy said at Manchester, it is up to the United States and Great Britain to show the world that our system is better than that of the totalitarians. 'We must do everything within our power to make the democratic system of trade work, and to make it so attractive that those nations now committed to a different system will join us in a great movement to restore to international commerce the flexibility which it once enjoyed.'

So we see once more how effectively protection, carried to mad excesses, has preached the cause of free trade. It has inspired an ambassador of America, the classical home of high protection, to tell a British audience that 'an exchange of goods between countries as between individuals, means better products, lower

prices and a higher standard of living', and to make other observations that might have come straight out of a Cobden Club pamphlet. Better still, it has produced an Anglo-American Trade Agreement, justly described by Mr. Kennedy as the 'greatest commercial agreement of all time', and as meaning that the two countries have taken a long step towards economic disarmament, and hope to have 'a lot of company on the way'.

And so say all of us. But the background of all trade is confidence, and this is especially true of trade between nations, involving as it does long period contracts, and all kinds of disastrous consequences if war should happen before the contracts have been completed and crowned by payment. It therefore follows that, great as are the hopes that spring from the joint action of the United States and the British Empire, full recovery of international trade is impossible until something like the peace and stability of the pre-war period can be restored. For a country such as ours, with its dependence on international trade for full activity, there will still be a gap to be filled, as long as the fear of war saps the courage of industry and commerce.

To fill this gap, the most obvious remedy is that of public works. At times when industry sees less chance of profit ahead and is consequently going slow, the Government, or public bodies such as municipalities and counties, should set to work on road-making, school-building, water-supply, parks and pleasure-grounds in towns, and other tasks, which are outside of the province of private enterprise, or on schemes,

valuable on grounds of social benefit or of public health, such as slum clearance and relief of overcrowding in cities. By so doing, public bodies set in motion a demand for materials and for the effort of wage-earners, and so maintain the purchasing power which gives industry its market.

This method of defeating depression has been advocated for very many years. Mr. Sidney Webb, as he then was, talked of it long before the war, if my memory serves me aright, as a cure for unemployment. It was, of course, contrary to what used to be considered sound principles of public finance, which, inspired by *laissez-faire* economists, taught that public bodies should spend as little as possible, leaving the income of taxpayers and rate-payers to 'fructify' in such manner as its owners might prefer, and, above all, that public bodies should interfere as little as possible with private enterprise.

Of late, however, public works, like so many other measures once suspected as 'socialistic', have received a good deal of pontifical blessing from some of our leading economists. Most notable among these is Mr. Keynes, who points out, in his *General Theory of Unemployment*, that 'pyramid-building, earthquakes, even wars may serve to increase wealth, if the education of our statesmen on the principles of the classical economics stands in the way of anything better'. (It is rather unkind of Mr. Keynes to be so scornful of our statesmen for believing in the principles of classical economics – having after much painful effort and bewilderment more or less mastered a certain body of doctrine as conducive to the material welfare of the

community, statesmen and the business public and popular writers on finance may surely be excused, if they cannot purge their minds of the old orthodoxies with the flea-like speed and agility shown by academic performers. The pressure of events is on the side of the old heresies, now resplendent as the newest form of orthodoxy; but their advocates must not be too impatient.)

There was obviously always a good deal to be said for the argument that it is better to employ people on making useless things than to let them waste their lives in idleness. As Mr. Keynes himself puts it, 'if the Treasury were to fill old bottles with Bank-notes, bury them at suitable depths in disused coal-mines which are then filled up to the surface with town rubbish, and leave it to private enterprise on well-tried principles of *laissez-faire* to dig the notes up again (the right to do so being obtained, of course, by tendering for leases of the note-bearing territory) there need be no more unemployment and, with the help of the repercussions, the real income of the community, and its capital wealth also, would probably become a good deal greater than it actually is. It would, indeed, be more sensible to build houses and the like; but if there are political and practical difficulties in the way of this, the above would be better than nothing'.

By the 'repercussions' Mr Keynes presumably means the effect on general business of the spending of the wages of workers who did the digging, and provided the necessary tools and machinery, and of the profits earned by the industries employing them and by the concessionaires who had secured the tenders and by

the Government itself in selling them the concessions. It seems a very easy way to create wealth – so easy that there must be a catch somewhere. And there is. The catch is in the notes that the Government had to bury, to induce the concession-hunters to dig them up. If the Government got these notes by taxation, it would reduce the spending power of the taxpayers. If it got them by borrowing, it would be increasing debt, to the discomfort of the taxpayers who would, in after years, have to be taxed to meet the debt charge. If it just printed them, it would rouse fears of inflation and perhaps cause a flight of capital to foreign countries; and this method would also tend to raise prices and the cost of living, and so would be, in effect, taxation of the worst kind, falling on shoulders least able to bear it.

All these objections apply, not only to Mr. Keynes's pleasantly paradoxical scheme, but also to Governmental building of 'houses and the like', which, as he so truly said, would be much more sensible. Somebody has to bear the cost, and that somebody is likely to feel uncomfortable. Least discomfort, however, is certainly produced by borrowing for such purposes, since taxpayers are much less frightened by the prospect of having to meet interest in future years than by having to pay the whole cost here and now. This was lately shown when, at the end of November, 1938, the Chancellor of the Exchequer cheered the Stock Exchange by announcing that he was going to ask for further borrowing powers to meet the cost of arming for defence, a form of public works which is now producing the repercussions noted by Mr. Keynes.

And there are other objections. By doing work of

this kind, Governments or public bodies certainly create a demand for labour and for materials. But the labour may be of a kind that is unsuitable for those who are unemployed, and may make them less fit to resume their normal occupation if an opportunity should occur later on; and this labour may be wanted in places in which there are difficulties about housing it; and the materials may be of a kind that is also wanted by ordinary industry, and a possible rise in their prices will hamper industry struggling to compete with subsidized foreign rivals.

There is also the question of the waste which is believed to be almost inevitably associated with any practical enterprise undertaken, or even promoted, by official influence. As an example, let me quote a few words from an address delivered in June, 1938, by Lord Kennet to the Statistical Society, entitled 'Some Footnotes to Housing Figures', housing being a subject of which he had had, as Minister of the Crown, intimate knowledge. He said that when he first came into contact with the housing problem in 1931, he had concluded that the existing system of subsidies was actually reducing the rate of production of small houses for wage-earners; and that 'an enormous amount of public money had been wasted in the past in subsidies unnecessarily large, and ill-directed'. Moreover, public money so often seems, even when well spent, to produce unfortunate results. As when wage-earners and their families, transferred from bad into better dwellings, are obliged to pay rents which force them to make cuts in their already inadequate expenditure on food.

But all these objections, weighty though some of them are, fade into comparative insignificance when viewed in the light of the immense advantages, direct and indirect, of (1) providing work for people who want to work; (2) assisting industry by the only means which really stirs it and spurs it, namely increasing the purchasing power of the masses and so widening the market in which it has to look for the profits which are its life-blood; and (3) quickening the flow of public revenue which takes toll both of consumption and of profits, and lessening the burden on the public purse involved by relief of unemployment.

This method of stimulating industry through public works also has the advantage of being direct and straightforward in its approach to its object. The monetary method, as exemplified in our last chapter through Mr. Harrod's proposal, was both tortuous and uncertain. By inducing the banks to make huge investments in Government securities it would probably have succeeded in raising their prices and, less certainly, those of industrial securities. Though if some tiresome bother about Continental politics had supervened, even this first item in the programme might have been performed in vain. But it is much more doubtful whether industrialists, who were being told at the same time about an imminent slump, would have seized the opportunity to make new issues of capital and use the money to expand their activities. They might much more probably, and naturally, have argued that if the situation required this kind of remedy, they would prefer to see a little further before dancing to the tune so dubiously piped.

In the case of public works, some public authority gives definite orders to industry to carry out some job; and the virtuous circle of expanding demand for materials and for human effort, with its corresponding increase of purchasing power, begins to spin and widen. Whether it is financed by an increase in credit, or merely by quickening the flow of the existing stock of money, is a matter of minor moment. It is doing what we want to see done – getting buying power into the hands of those who need it, and so helping to bridge the gulf that yawns, in times of slack business, between idle producers and hungry consumers.

At present the Government, in this and most other countries, is ordering industry to produce weapons of destruction. So far the effect of its orders has not been sufficient to balance that of dwindled foreign trade, the recession in the United States, threats of war in Europe and the forecasts of the croakers' chorus. If these adverse influences, or enough of them to intensify recession here, continue to prevail, and those £500 millions per annum of possible wealth, stated by the *Economist* to exist (see p. 248), are still allowed to run to waste, then it seems likely that real work, that will make the country richer, healthier and more comfortable, will have to be undertaken by public authorities.

That there is plenty of work to be done, is obvious to anyone with eyes in his head. Urban and suburban transport facilities are still disastrously deficient, as those who have to get in and out of London in the rush hours know only too well – and even in the slack times we still strap-hang in the London tubes. The

inadequacy of the roads to carry week-end traffic is patent all over the country. More serious are the needs for proper accommodation for schools, water supply and sanitation in country villages, improvement in scandalously deficient hospital accommodation, and other means for improving health of mind and body. And this last-mentioned need brings us to a problem which is hardly one of public works, but is closely allied to them and contains immense possibilities of social and economic benefit – that of improved nutrition, to be dealt with in our next chapter.

CHAPTER XVIII

CONSUMPTION AND DEFENCE

Increased Consuming Power for the General Mass now favoured by All Influences, Economic, Moral and Political – Help from the War-Fever – Need for Whole Population to be Well Fed, Clothed, Housed, Educated and not Discouraged by Poverty from Propagation – Demand for Organization for Public Service – Supports all Party Programmes – An Ideal for Youth – Attractive to Practical Business – Profit and Service – Mr. Hall's Memorandum – Security Depends on Improved Standard – Sir John Orr on Increase in Trade due to Better Feeding – Effect of Cheaper Food on Other Business – Agricultural Problems and Possibilities – Mr. A. G. Street on Plight of British Agriculture – Irritation among Farmers with Government's Efforts – Housing and Clothing – Education and Sanitation – Cost and Benefit of Social Services – Family Allowances – Increased Consumption and Increased Revenue – British Reserves of Energy – Steady Growth of Trade, except when Interrupted by Politics and War – Expression of Mankind's Acquisitive Tendency – Defeat of Poverty Necessary to Prosperity – And to Defeat of Despotism on Field of Trade or of Battle.

ALL the influences, good and evil, that affect the business life of to-day, are working to provide us with that increase that we desire in the consuming power of the mass of the population. Among economic influences the most prominent are technical improvements which cheapen production and distribution, and require mass production to secure profits for those who adopt them; and mass production defeats itself

and spoils its own market, unless mass consumption is ready to absorb its output. Mass consumption is obviously only possible if the wage- and salary-earners are supplied with the wherewithal to turn their needs into demands.

A similar shove in the right direction is given by what might be called moral influences, if it were not that the word 'moral' has a somewhat unpopular significance in these sceptical days; so we had better describe them as that improved sense of decency, in the minds both of employers and the public, which grants a much readier hearing to any reasonable claim for better conditions that is put forward by the manual and clerical workers.

Political influence works along the same line. In the democratic countries, the wider franchise, and the inclusion of women among voters, have secured for the domestic needs of the masses a degree of attention that they seldom received in those 'good old days', before, as Colonel Blimp would say, 'the rabble got the vote'. Even under the despots, the precedent set by the Roman Emperors is followed, as far as circumstances permit, in the grant of 'bread and circus-games'; and the physical fitness of the population is provided for with a view to the wars which are held up as the noblest objects of human effort.

In fact, surprising as it may seem, this war-fever and the need for preparing against it are likely to give us just the necessary push that will solve the problem of turning needs into demands. Just as the war of 1914 showed us how to raise the general standard to a point below which it has never been allowed to fall, so the

present 'half-peace' may oblige us, in the interests of defence, to see that our whole population is properly fed, clothed and housed, receives a sound practical education, and is not prevented by the fear of poverty from providing itself with posterity. It will be one of the pleasantest ironies of history, if the recent relapse of Europe into barbarism turns our footsteps into a path that will lead to civilization that is worthy of the name, being shared by all those who help to create and maintain it.

This general demand, noted on p. 247, for an organization of public service for co-ordinated effort in the cause of peace, will carry us a long way. It includes or supports almost every programme that every party and every section of a party cherishes – strength in war, dear to our Jingoes and Imperialists; support for justice rather than force, preached by pacifists and idealists; a chance for the exploited masses, the aim and object of old-fashioned Radicals and all the modern 'Left Wing'; and collective bargaining based on the right to strike, the Ark of the Covenant of the trade unions, abolished wherever despotism takes charge. In the last war, we discovered how much we could afford when our national existence was in danger. Now, with those £500 millions up our sleeve, of which the *Economist* has told us (see p. 248), we are forced by the war-mongers abroad to make our country at once formidable and happy, in the strength, intelligence and courage of all its inhabitants. It is said that the young people of to-day are in search of an ideal, to believe in and to work for. Here, surely, is one in which they can readily believe and on which

all their energies can be well spent; for in this matter of re-making the nation it is clear that official effort will need to be supplemented, and often led, by the activity of individual citizens, associated for this purpose.

We, however, are not concerned here with the ideal aspects of this urgent problem of raising the national standard. For this inquiry, the most important point about it is, that its practical benefits for all sections of the community ought to win for it the hearty support of the most hard-headed business men. These hard-boiled organizers, with their keen eye for profits, are somewhat under a cloud in these days, when one hears a good deal of talk about 'work for service, not for profit'. It is not possible to make profits out of industry or commerce without providing service, and the profits of business are only another form of the wages of labour, the fees of the professions and the salaries of Civil Servants. Are we all to work for nothing, and be supported by the State, which will tell us what services to render? That way lies despotism. Searching for profits, the business man has unwittingly done work of incalculable benefit for human progress and happiness. What we want to do is to bring home to him the truth, of which he is already more than half-convinced, that it will pay him handsomely to put every ounce of available energy into the national effort that lies before us. The *Economist* told us on December 17, 1938, that 'there is no paradox at all in the statement that any policy aiming at the improvement of the standard of living of the wage-earners should make it one of its first objectives

to ensure the maintenance of an adequate level of profits'.

On this point, and indeed upon all the economic implications of the problem, a blaze of cheerful light can be obtained from a study of a memorandum prepared for the League of Nations Economic Committee by Mr. N. F. Hall, on 'Measures of a National or International Character for Raising the Standard of Living'. Mr. Hall was formerly Professor of Political Economy in the University of London and has lately been appointed Director of the National Institute of Economic and Social Research. His memorandum, being drawn up for the League of Nations, naturally deals with the problem chiefly from the international and world-wide point of view. The importance of this aspect of it cannot be exaggerated; but in the present state of international temper, discussions of possible collaboration among the nations, for this or any other purpose, have a slightly academic flavour. Much, however, of what Mr. Hall has to tell us is very relevant to the job with which we are faced, of a big effort to show that strength and energy and wealth can be developed much more easily by a democratic people than by those whose intelligence is stifled by despotism.

Mr. Hall insists on a point that I have tried to make in preceding pages, that modern business cannot pay unless its output can be absorbed through mass consumption. As he puts it, 'the maintenance of the economic and political security of prosperous nations and of wealthy individuals has come to depend to a very substantial degree on the prosecution

of measures designed to give at least a minimum standard of physiological living to the masses of the people'.

Food, of course, comes first, and on that subject Sir John Orr's calculations were mentioned on p. 190. This distinguished authority estimated that if all diets were brought up to the optimum, or best, level, an increased sum, amounting to £200 millions a year, would be spent in this country on necessary foods. This would imply a great development in our own agriculture and at the same time a great increase in our demands on our oversea suppliers, whose increased purchasing power would stimulate the activity of our export industries. Mr. Hall points out that, though man may not live by bread alone, without the necessary minimum of 'bread' the ordinary individual can hardly be said to 'live' at all; and such life as he enjoys is short – 'an analysis of the figures for the United Kingdom shows that prosperous districts have a corrected death rate 30 per cent. lower than the average for the whole country, while poorer districts show a figure 40 per cent. higher'. By this improvement we should thus be conferring the boon of longer life, with all its implications of increased consumers' demands, on millions of our population.

Here is a nice problem for agricultural and distributive statesmanship – to increase the supply of food on a basis that will secure it at a price that can be paid by those who are under-nourished and that will at the same time give a fair profit to farmers at home and oversea. In fact, it seems that Mr. Hall aims at measures by which the basic necessaries of life can be

made cheaper. The demand for them is what economists call 'inelastic', which means that a reduction in their prices does not increase the demand for them, but sets free the consumer's purchasing power and diverts it to other articles, for which demand is elastic, that is, varies with the price at which they can be bought.

When this happens, says Mr. Hall, 'the increased demand for these other commodities will create new opportunities for earning income, and also new fields for the fruitful investment of capital. The effect upon the volume of economic activity will be substantial and should be more than sufficient to replace any reduction in money income which may accompany the reduction in the prices of the basic necessaries. It is probable that the character of the recovery of economic activity in the United Kingdom between 1932 and 1936 must be attributed to the operation of these forces. The fall in the unit prices of many of the basic necessaries of life liberated a demand for consumption goods of a variety of different types having a considerable elasticity of demand, such as cheap wireless sets, a greater variety of clothing, better quality foodstuffs and the like, and the investment activity necessary to meet the demand for these goods stimulated general employment and increased the monetary earnings of the economy as a whole'.

As to the possibility of cheaper food, produced by adequately rewarded farmers, we hear mouth-watering stories from experts who have studied the subject. Mr. Aldous Huxley, in his *Ends and Means*, quotes *Nations can Live at Home*, by Dr. Willcox, to the effect that any country 'which chooses to apply the most advanced

methods to the production of food plants, including grasses for livestock, can support a population far in excess of the densest population existing anywhere on the earth's surface at the present time'. But, as usual, experts differ, and sometimes one hears that modern farming methods are undermining the fertility of the soil and that, if agriculture does not mend its methods, something like famine is ahead of us.

Let us hope that accuracy lies somewhere between these extremes. However that may be, it is clear that our Government will have to do some hard thinking about this nutrition problem. Agriculture has received much of its attention and many millions of public money and yet the unfortunate Minister responsible for it was nearly booed off the platform at Lincoln on December 9, 1938, by an audience of irate farmers. Mr. A. G. Street, a well-known authority on the subject, stated in an article in the *Sunday Times* of November 27, that, unless adequate prices for farming produce are soon forthcoming, 'our farming land will fall rapidly into still greater decay; and, even if we do not suffer a war-time famine, we shall hand down to posterity a largely derelict country-side'. As to the higher prices which, in his opinion, are apparently necessary, he suggests that it would be 'better far to put farming on an equal tariff basis with other industries, and to subsidize the poorer consumers of food. In that way the nation would obtain better health and better farming, very good value for money'. There is, however, also another avenue to be explored – that of cost of distribution and sale. Better organization ought to effect a good deal here. The whole question

bristles with difficulties, and expert opinion about it seems to differ even more widely than about currency or remedies for indigestion. It is indeed fortunate that this 'half-peace' crisis, with an insistent public opinion behind it, will force our rulers to solve it.

Proper nutrition is only the first step. As Mr. Hall tells us, 'it is of little value to make available supplies of foodstuffs of different types if the housewives have not got the facilities for storing, handling and cooking these foodstuffs and if housing conditions generally are inadequate' and, later, 'since his expenditure upon clothing and other articles for personal use is in direct competition, in the consumption plan of each individual, with his outlays upon foodstuffs and upon housing accommodation, policies to advance national well-being by improved nutrition or by better housing may be frustrated unless they are combined with appropriate policies for the production and distribution of clothing'.

Then there are better education and better sanitation in the villages and plenty of other things which ought long ago to have been supplied by a nation as rich as ours, if it had given due attention to the real object of its existence, which is to give to every citizen a chance of the fullest possible development as a civilized human being. Technical skill in all branches of industry and commerce will count for much in the 'half-peace' struggle that is before us; and if war comes they will be as important as the physique and spirit of the combatant forces.

These 'social services' and their heavy cost are a cause of frequent complaint among those of the

wealthier classes who consider that they are already over-taxed. They have, however, already proved their value by maintaining general purchasing power. A striking feature of the recent recession in business has been the steadiness of retail trade at a slightly rising level. The improvement that is now seen to be necessary in the standard of the poorer classes ought, if it is skilfully and wisely carried out, to pay for itself handsomely through the wider and steadier market that it will furnish, and the decrease that it will produce in the cost of fighting disease and in providing against unemployment. To quote Mr. Hall again, 'the social services have an important rôle to play in increasing economic activity through the contribution which they can make towards a better distribution and an increased security of incomes. It is, however, essential that they should be viewed from a positive rather than a negative standpoint, and that they should not be developed as a grudging concession to the importunities of the poor, but encouraged as part of a purposeful plan for creating those conditions of demand which are necessary if production is to be increased in the ways which modern knowledge makes possible and which the requirements of physiological well-being' (so essential to national security) 'show to be desirable'.

If the Powers that believe in democracy and peace need to be strong, they must clearly have behind them a population that is not only fit, but plentiful. National defence can thus be used as a weighty argument in confirmation of many others that are urged in favour of family allowances. An article in the *Economist* of

September 10, 1938, put the case for them with convincing lucidity. Summarized, it showed that the demand for regular cash allowances in respect of each child, for so long as they are dependent, is receiving rapidly growing support 'as an essential addition to our system of social services, which already recognizes that the unemployed, the sick and the aged should be maintained in a state of physical efficiency'; and that this is not a matter which affects only the lowest-paid labourers.

In this reform, the article continues, Britain lags behind many Continental countries and some of the Dominions. Having discussed four possible ways of meeting its cost, the *Economist* concludes that 'the State's interest in the maintenance of the community's physical resources' (and also, we suggest, of its numbers) 'is considerable, and to finance the children's allowances out of taxation, as is already done in the case of education and public health, may prove to be the only way. . . . And the return to the community (which now spends £285 millions a year as the consequence of ill-health, according to a recent speech by Sir Leonard Hill) in the shape of fit and healthy citizens would go far to cover the cost'. On this point, taxpayers may well feel a certain scepticism. Before we reached it, this chapter already contained several expensive suggestions, and the country is already taxed to the limit. But this half-peace under which we are now living is in fact a bloodless war which will, if we make ourselves strong enough, lead us to the most glorious victory ever won, a victory over poverty. Engaged in such a contest, we are certainly not

justified in ignoring the cost – in fact, we have to see that better organization keeps the cost as low as possible. Money, however, in the sense of public revenue, very quickly creates itself with the increase of production and the consequent growth of consumption and income. Given the necessary effort, required for producing at home and buying abroad the material commodities and services needed to make us strong and rich and healthy, the financial problem will very easily be solved.

As to our power to make this effort, the experience of the last war, as noted in Chapter III, has shown what immense reserves of energy we then possessed, and they are certainly far greater to-day. There are those £500 millions of which the *Economist* has told us, of annual potential wealth waiting to be made actual. (It would have been kind of the *Economist* to give some indication of the calculations by which it arrived at this comfortable figure. As it is, we can only accept it, relying on the well-known prudence and accuracy of our informant.) We have also a great store of energy in the national preference for any form of exertion rather than work. Foreign visitors often hold up hands of horror at the spectacle of what they regard as our laziness – our extended week-ends and the frivolity with which we are alleged to approach the serious problems of work and of business. It is certainly true that having shown the world how to develop industry and commerce on modern lines, we have lately given much attention to showing it how to make a wholesome use of the leisure that wealth brings with it. But these healthy proclivities have

provided us with a store of energy, exercised on the golf-course and the football field and in the suburban back garden, ready to be put to sterner uses now that it is called for by a cause worthy of every ounce that we can put into it.

This need for national service, if duly brought home to business men, wage-earners and all the rest of us, will spur the economic activities of the country in a way that will surprise us, as it did in 1914.

It has been shown in the earlier chapters of this book how business activity has always in the past insisted on growing, whenever it has been given a chance by freedom from political interference; and that this growth of trade and commerce is the inevitable expression of human nature's undefeated acquisitive tendency. This tendency alone, under modern conditions of production, requires for its full satisfaction the increased consuming power of the masses – in other words, the defeat of poverty. Now it is reinforced by the urgent need that all peace-loving peoples are feeling, for strength and efficiency to fight the forces of despotism, if possible in fields of peaceful competition, and, if the despots insist on war, on the field of battle.

'The fact of progress', says Mr. Fisher in his great *History of Europe*, 'is written plain and large on the page of history; but progress is not a law of Nature. The ground gained by one generation may be lost by the next. The thoughts of men may flow into the channels which lead to disaster and barbarism.' Such a reaction now threatens us with the supremacy of

despotism, stifling thought and intelligence, with dismal results for our material standard. Given confidence and courage, less croaking and harder work, the victory of freedom is assured.

CHAPTER XIX

SUMMARY AND CONCLUSION

We have thus seen that

(1) the conversion of consumers' needs into effective demands would be conducive to general business prosperity;
(2) this conversion can only be secured through an increase in production and distribution, also conducive to prosperity;
(3) production, stimulated by man's acquisitive instinct, increases whenever man's quarrelling instinct allows it to do so;
(4) the so-called trade 'cycle' has no regularity in time or extent that justifies its being thus misnamed;
(5) belief in it, spread by the forecasters and working through stock-market fluctuations, has a seriously depressing effect on business confidence;
(6) confidence in the prospect of future profits is the only effective stimulus to trade expansion in countries working under private enterprise;
(7) increased purchasing power in the hands of consumers the best foundation for this confidence in the profit prospect; and

(8) this increase in consumers' purchasing power is a necessary part of the improved standard of health and efficiency which the freedom-loving States must secure for their populations, to meet the threat of despotism, on the field of battle or of commerce.

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